

► Recent Trends on Informal Employment in Georgia

Author / Clemente Pignatti





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Abstract

Drawing on data from the Georgian Labour Force Survey (2021–2022), this paper provides a detailed statistical profile of informal employment in Georgia and discusses its key drivers.

Around four workers out of ten were informally employed in Georgia in 2022. The large majority (69 per cent) of informal employment occurs in the informal sector, with a smaller but significant share (27 per cent) taking place within formal sector enterprises.

The rate of informal employment is higher among men (43 per cent) compared to women (30 per cent), while being higher among both younger and older individuals compared to prime-age workers. The rate of informal employment is also inversely associated with educational attainment: around 80 per cent of those with primary education are informally employed, compared to less than 20 per cent among those with tertiary education. Informality is also concentrated in micro-enterprises, agriculture, construction, and low-skilled occupations.

Informal workers earn substantially less than their formal counterparts, work fewer hours on average but more frequently at atypical times, and frequently lack clear information about their employment contracts. To compensate for lower labour earnings, they rely more heavily on non-labour income sources, particularly support from family members.

The persistence of high informality in Georgia - higher than expected given the country's income level - is driven by a combination of (i) macroeconomic factors such as limited formal job creation and the relatively high share of employment in agriculture and construction, (ii) worker and firm characteristics (i.e. low productivity and skills, prevalence of small firms and small role of exports), as well as (iii) institutional/regulatory features (e.g. social security design features, preferential tax regimes, administrative barriers, and debt enforcement practices).

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Table of contents

Abstract	01
About the authors	01
Acronyms	05
Executive summary	06
Informal Employment in Georgia	06
Statistical Update and Key Insights (2021–2022)	06
<i>Overview</i>	06
<i>Extent and Distribution of Informality</i>	06
<i>Gender, Sector and Occupation</i>	06
<i>Age and Education</i>	06
<i>Firm Size and Employment Status</i>	06
<i>Earnings and Income Strategies</i>	07
<i>Working Conditions and Contract Clarity</i>	07
<i>Drivers of Informality</i>	07
► Introduction	08
► 1 The rate of informal employment	10
► 2 The individual characteristics of informal workers	13
► 3 The distribution of informal workers in the labour market	17
► 4 Earnings, income sources and working conditions	22
► 5 Possible drivers of informality	25
► Conclusion	28
Appendix	29
References	33
Acknowledgements	34

List of Figures

Figure 1. Distribution of formal and informal employment by employment status and sex in 2022 (by 100,000 workers)	12
Figure 2. Rate of informal employment by age	13
Figure 3. Male and female rates of informal employment by educational attainments	14
Figure 4. Rate of informal employment, by sector of economic activity	18
Figure 5. Rate of informal employment by firm's size	20
Figure 6. Employment and informal employment in the care economy	21
Figure 7. Share of individuals reporting any source of income used in the previous month	23
Figure A1. Rate of informal employment by firm's size	32

List of Tables

Table 1. Rates of employment and informal employment, by sex, year and type of economic unit	11
Table 2. Descriptive statistics for formal and informal workers	15
Table 3. Rate of informal employment and distribution of employment, by sex and occupation	19
Table 4. Distribution of formal and informal workers by earnings brackets	22
Table 5. Working conditions of formal and informal workers	24
Table A1. Rates of employment and informal employment, by sex and educational attainments	29
Table A2. The determinants of informality	30
Table A3. Rate of informal employment and distribution of employment, by sex and sector of economic activity	31

Acronyms

GEA	Georgian Employers' Association
GEL	Georgian Lari
GTUC	Georgian Trade Unions Confederation
ICLS	International Conference of Labour Statistician
ICSE	International Classification of Status in Employment
ILC	International Labour Conference
ILO	International Labour Organization
LFS	Labour Force Survey
SDG	Sustainable Development Goal
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women

Executive summary

Informal Employment in Georgia

Statistical Update and Key Insights (2021–2022)

Overview

This executive summary presents key findings on the nature of informal employment in Georgia, based on data from the Labour Force Survey (LFS) for 2021 and 2022. It also highlights the main factors driving informality in the country, drawing on both statistical data and stakeholder consultations.

Extent and Distribution of Informality

Informal employment remains widespread, with approximately **four in ten** employed individuals in Georgia working informally. The rate is notably higher among men (**42.9 per cent**) compared to women (**29.8 per cent**). About **two-thirds** of informal employment occurs in firms operating in the **informal sector**, while the remainder is found within **formal sector** firms.

Gender, Sector and Occupation

The gender gap in informality is linked to differences in the **sectoral and occupational distribution** of employment. Men are more likely to work in sectors such as **manufacturing and construction**, which are associated with higher informality. They are more often employed in **low-skilled occupations**, which further increases their exposure to informal employment.

Among informal workers, men are engaged predominantly as **employers**, while women more often are employed as **employees** or **contributing family workers**.

Age and Education

Informality is most common among the **youngest (15–20 years)** and **older workers (50+)**, while the rate is **below the national average** for those aged **20 to 50**.

Educational attainment strongly correlates with informality. Individuals with **no or low levels of education** are significantly more likely to be informally employed than those with higher levels of education.

Firm Size and Employment Status

Firm size plays a significant role. In **micro-enterprises (1–4 employees)**, more than **70 per cent** of workers are informally employed. This share decreases markedly with firm size, reaching only **7 per cent** in **large enterprises (50+ employees)**.

Earnings and Income Strategies

Informal workers earn **substantially less** than formal workers. **24.1 per cent** of informal workers earn less than **300 GEL per month** (approximately US\$ 110 at time of publishing), compared to **12.1 per cent** of formal workers. To compensate, a higher share of informal workers rely on **other sources of income**, including **public transfers** and **support from relatives**.

Working Conditions and Contract Clarity

While informal workers tend to work **fewer hours overall**, they are **more likely to work at night or on weekends**. They are also **more likely to lack information** about their employment contract – such as its **duration** or whether it is **oral or written**.

Drivers of Informality

A **desk review** and **consultations with national stakeholders** reveal that informality in Georgia is driven by a combination of factors. These include:

- **Macroeconomic conditions**
- **Characteristics of workers and firms**
- **Regulatory and legal framework limitations**

These diverse drivers underscore the need for integrated and tailored policy interventions to effectively address informality in Georgia.

► Introduction

Informality is still a pervasive phenomenon in many countries around the world. The ILO estimates that, globally, 58.2 per cent of the employed population works informally (ILO 2023).¹ The prevalence of informal employment varies largely across countries, depending on their income level, among others. Specifically, the share of informal employment goes from 15.9 per cent in high-income countries to 89 per cent in low-income countries. The presence of a large informal sector represents a challenge to the advancement of social justice in the world of work, as it limits access to workers' rights, social protection and decent working conditions. A large informal sector also represents an obstacle to economic growth, as it represents a drag to firms' productivity, generates unfair competition and reduces government revenues.

In this context, encouraging a transition towards the formal economy is seen as an important dimension of inclusive growth and sustainable development. Resolution and Conclusions on Decent Work and Informal Economy, adopted by the International Labour Conference (ILC) in 2002, included the commitment to planning action on "reducing decent work deficits in the informal economy". Recommendation concerning the transition from the informal to the formal economy (R204), adopted in 2015, provides guidance to member states to facilitate "the transition of workers and economic units from the informal to the formal economy". A general discussion on "Addressing Informality and Promoting the Transition to Formality for Decent Work", held during the International Labour Conference in June 2025, provides a background for the discussion of the ILC on innovative approaches and good practices to addressing informality, in order to identify further action and priorities at the global, regional and country levels and enable the ILO constituents to better support successful action to promote a transition to formality, including preventing informalization. Progress towards the reduction of informal employment is also tracked as part of the 2030 Sustainable Development Goals (SDGs), under indicator 8.3.1.

The importance of tackling informality also appears in Georgia's context. A majority of individuals in the country believe that it would be beneficial for Georgia if the government mandated that (i) all people who work had an employment contract, and (ii) all small businesses and sole proprietors had to register their business (UN Women 2018). The same view is shared by enterprises. Specifically, 13 percent of formal firms in Georgia identify competition from the informal sector as a major concern (World Bank 2022).

The purpose of this note is to present a statistical update on the nature of informal employment in Georgia, as well as a brief discussion on the potential drivers of informality. Questions that this note will aim to answer include the following: how many individuals work informally in the country? Are they younger or older than formal workers, on average? How do they compare in terms of educational attainments and other individual characteristics? In which type of firms, occupations and sectors of economic activity do informal workers operate? What are the working conditions of informal workers, and what are their sources of income? What are the main drivers of informality? Shedding light on these questions has important policy implications, as it informs a discussion on the possible policy options available to favour a transition to formality in employment.

Throughout the note, attention will be paid to the fact that informal employment, far from being a homogeneous phenomenon, can take a variety of forms, in Georgia as elsewhere. For the

¹ This share is equal to 50.2 per cent, when excluding the agricultural sector.

purpose of this note, an important distinction refers to the fact that individuals can be informally employed in (i) the formal sector, (ii) the informal sector, or (iii) in the household own-use production and community sector (henceforth, household sector). This distinction refers to the types of economic units where workers can be employed. As it will become clear when discussing the results, informal employment affects different people and it is associated with different working conditions, depending on the types of economic unit in which it takes place. Additionally, policy option to promote the formalization of the economy will differ, based on where informal employment takes place. For these reasons, wherever possible, this analysis will not only compare formal and informal workers but also dig deeper in the different forms of informal employment.

The note will use ILO definitions of labour market indicators. When it comes to the definition of employment, Georgia adopted definitions agreed during the 19th International Conference of Labour Statisticians (ICLS) of 2013. This affects all statistics from 2021 onwards and has produced a break in the series with respect to previous years. The analysis will then focus on data for years 2021 and 2022, using information from Georgia's labour force survey. The definition of informal employment, as well as the distinction between different types of economic units, also will follow ILO methodology. Specifically, in 2023, the 21st International Conference of Labour Statisticians updated measurement standards on informal economy.² Data on informal employment is unavailable in Georgia's labour force survey after 2022

² See Resolution Concerning Statistics on the Informal Economy for details:
https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@dgreports/@stat/documents/normativeinstrument/wcms_901516.pdf.

► 1 The rate of informal employment

Table 1 presents the rates of employment and informal employment, separately by sex and year.³ The employment rate, at 42.9 per cent in 2022 in the overall population, presents a relatively large gender gap. Specifically, around one half of men aged 15 and above are in employment, while the same is true for only around one third of women. The rate of informal employment was instead equal to 37.1 per cent in 2022. This means that, in Georgia, slightly less than 4 workers out of 10 are informally employed.

Important insights emerge when looking at the distribution of informal employment by type of economic units (right part of the table). In particular, the data reveals that the majority of informal employment takes place in the informal sector of the economy (this accounts for 25.7 per cent of total employment, or 69 per cent of total informal employment). However, approximately a third of informal employment takes place in the formal sector (this accounts for 10.1 per cent of total employment). The remaining part of informal employment, equal to 1.3 per cent of total employment, takes place in the household sector.

The rate of informal employment is higher among men (42.9 per cent) compared to women (29.8 per cent). This means that more than 4 male workers out of 10 are employed informally, compared to around 3 female workers out of 10. The distribution of informal employment across sectors also varies by sex. Specifically, informal employment for men predominantly takes place in the informal sector (this accounts for 75 per cent of total informal employment). For women the distribution of informal employment is more equally balanced between the informal sector (which still accounts for 60 per cent of total informal employment), the formal sector (30 per cent) and the household sector (10 per cent). Importantly, informal employment in the household sector is a phenomenon concerning almost exclusively women.

³ Data will be presented for the population aged 15 and above here and in the rest of the analysis.

► Table 1. Rates of employment and informal employment, by sex, year and type of economic unit

	Employment rate	Informal employment	Formal employment	Informal employment in formal sector	Informal employment in informal sector	Informal employment in household sector
<i>Panel A. Overall</i>						
2021	40.4%	37.0%	63.0%	10.4%	25.5%	1.1%
2022	42.9%	37.1%	62.9%	10.1%	25.7%	1.3%
<i>Panel B. Male</i>						
2021	48.6%	43.0%	57.0%	10.9%	32.1%	0.0%
2022	51.7%	42.9%	57.1%	10.9%	32.0%	0.0%
<i>Panel C. Female</i>						
2021	33.3%	29.4%	70.6%	9.8%	17.2%	2.4%
2022	35.4%	29.8%	70.2%	9.1%	17.8%	3.0%

Note: Author's elaboration based on data from the labour force survey.

Another interesting aspect refers to the distribution of formal and informal employment by status in employment. Here, the ILO differentiates between mutually exclusive groups of (i) employees (also known as wage or dependent employees), (ii) employers, (iii) own-account workers, (iv) members of producers' cooperatives and (v) contributing family workers.⁴ From the labour force survey in Georgia, however, it is possible to retrieve information only on employees, employers and contributing family workers, and the following analysis will adopt this more parsimonious classification.

Figure 1 shows that most formal workers in Georgia are employed as employees. This is true for 80.5 per cent of male and 91.5 per cent of female formal workers. Among informal workers, instead, the distribution of employment by status is more varied. Specifically, employees constitute 33 per cent of male informal workers and 44.8 per cent of female informal workers. Among men, the bulk of informal workers is instead constituted by employers, which represent 56.9 per cent of informal workers. Instead, the share of employers among informal female workers is relatively low (at 24.5 per cent of the total), while a more important role is played by contributing family workers (30.7 per cent).

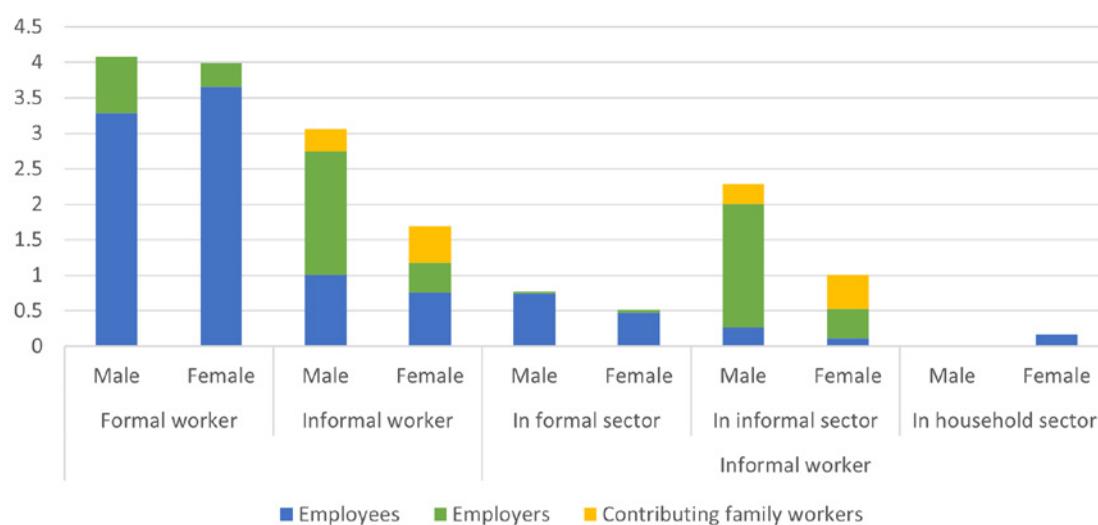
This shows that informal employment can take different forms for men and women: for men, informal employment is undertaken, among others, as a means to initiate an entrepreneurial activity (even if falling outside the scope of the formal labour market, and therefore possibly associated with small size, limited access to credit and low productivity). For women, instead, it more often represents a form of employment within the family business. This can have important implications in terms of earnings and other working conditions (for example, contributing family workers do not necessarily receive a regular compensation for their work), and it also calls for different policy options to promote the transition of men and women to formality.

Interesting patterns emerge by also looking at differences across informal workers by type of economic unit (right side of figure 1). Informal workers employed in the formal sector present

⁴ Reference is made to the ICSE-93 classification. See International Classifications of Status in Employment and Status at Work (ICSE and ICsaw) for details on the definitions used: <https://ilostat.ilo.org/methods/concepts-and-definitions/classification-status-at-work/>.

a distribution by status in employment which is very similar to that of formal workers (that is, they are predominantly employees). However, and as reviewed above, they represent a minority of the overall population of informal workers (around one-third of the total number of informal workers). Instead, informal workers in the informal sector, which constitute the bulk of informal employment, have a higher incidence of employers (for men) and contributing family workers (for women). Informal workers in the household sector are instead automatically classified as employees.

► **Figure 1. Distribution of formal and informal employment by employment status and sex in 2022 (by 100,000 workers)**



Note: Author's elaboration based on data from the labour force survey.

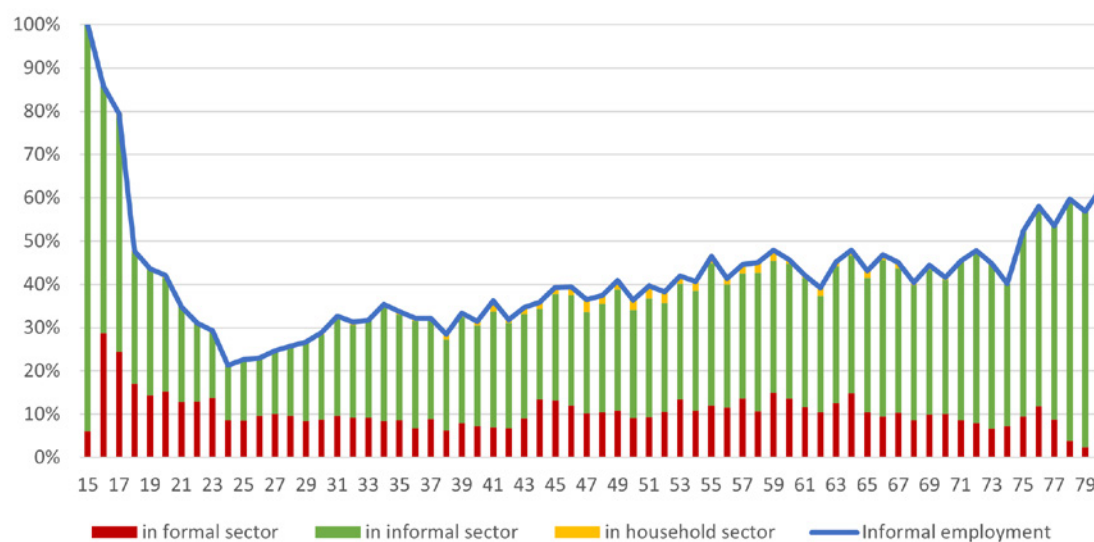
► 2 The individual characteristics of informal workers

In this section, the analysis will focus on the differences in the prevalence of informal employment for workers with different age and educational attainments.⁵

Figure 2 shows the rate of informal employment (blue line) by age of the worker, together with the composition of informal employment, at each given age, between the formal sector (red bar), the informal sector (green bar) and the household sector (yellow bar).

The figure reveals a U-shaped relationship between informal employment and age. Informality is very high among very young individuals. In this group, almost everyone who is in employment is informally employed. However, the informality rate declines rapidly, until reaching its lowest level, equal to 21 per cent, for individuals around the age of 25. After that, informality increases with age, this time gradually. As a result, individuals in their 40s report an informality rate between 30 and 40 per cent, while those in their 50s have a rate of informal employment between 40 and 50 per cent. The informality rate increases again after the retirement age, and it reaches 60 per cent among those aged 80 who are still employed.

► **Figure 2. Rate of informal employment by age**



Note: Author's elaboration based on data from the labour force survey.

Regarding the composition of informal employment, this is quite constant by age. Specifically, for all age groups, the majority of informal employment takes place in the informal economy, as discussed above. The contribution of informal employment in the formal sector is instead quite constant across the age distribution, accounting for around one-third of total informal

⁵ For the rest of the analysis, the information will be presented by pooling together data for 2021 and 2022.

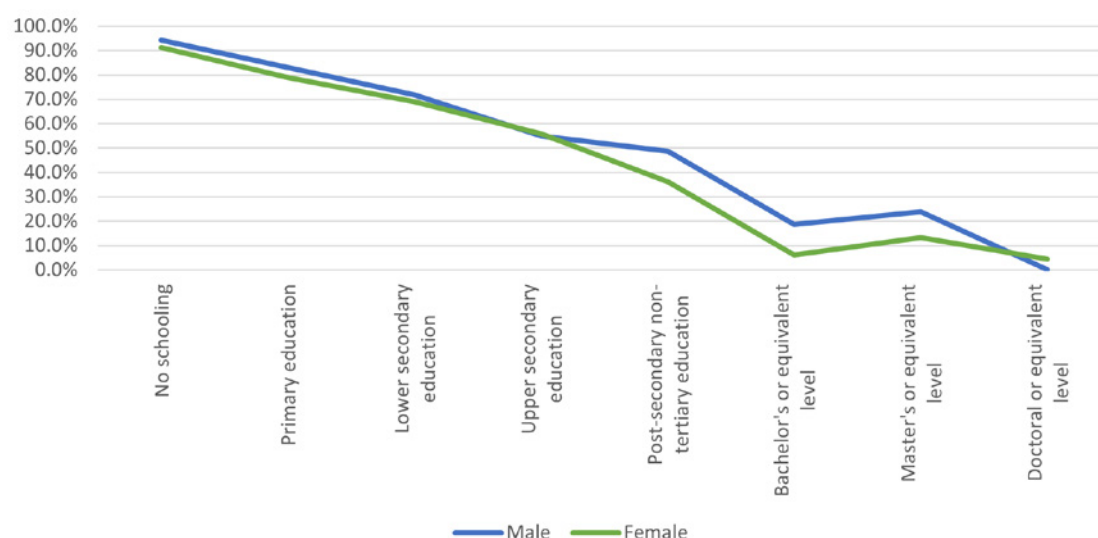
employment. The relatively few informal workers employed in the household sector are mostly concentrated among individuals aged 40 to 64.

Looking at the evolution of informal employment by educational attainments, some clear findings emerge. Specifically, the rate of informal employment declines sharply with educational attainments. Among individuals with no schooling, almost everyone is working informally. However, these individuals also report low rates of overall employment. That is, very few individuals with no educational attainments work and the few who work are employed informally. The rate of informal employment then declines rapidly, among both men and women, as educational attainments increase. Specifically, the rate of informal employment is around 80 per cent for individuals with primary education, 70 per cent for those with lower secondary education and 55 per cent for those with upper secondary education.

As educational attainments further increase, the male and female informality rates diverge slightly. In particular, women report lower levels of informal employment among people with (i) post-secondary non-tertiary education, (ii) bachelor's or equivalent level and (iii) master's or equivalent level of education. That is, the lower rate of informal employment among women compared to men, as discussed above, comes from individuals in these educational categories. Finally, the male and female informality rates converge again for individuals with a doctoral degree, a group where almost everyone is employed formally.

Table A1 supplements this information, with data on employment rates and the distribution of informal employment by type of economic unit – replicating the same structure as table 1 above. It shows that employment rates increase with educational attainments for both men and women, while the rate of informal employment decreases. It also shows that, for both men and women, the share of informal employment that takes place in the informal economy also decreases with educational attainments. That is, among highly educated individuals, the relatively few who work informally are more likely to do so within the formal sector rather than in the informal sector. Instead, informal employment among low-educated individuals predominantly takes place in the informal sector.

► **Figure 3. Male and female rates of informal employment by educational attainments**



Note: Author's elaboration based on data from the labour force survey.

Table 2 summarizes the discussion presented so far by presenting the descriptive statistics for selected variables, separately for (i) formal and informal workers, and (ii) differentiating informal workers by the type of economic unit where they work. It shows that, among formal workers, there is a roughly equal balance of men and women, the average age is equal to 45 and most individuals have either an intermediate (47 per cent) or an advanced (51 per cent) level of education. Instead, among informal workers, 65 per cent are men. Their average age is also higher, at 48 years old. Finally, the educational distribution is shifted towards individuals with lower educational attainments: 7 per cent have only basic education, 77 per cent have an intermediate level of education and only 16 per cent have an advanced level of education. In short, informal workers in Georgia are on average more likely to be men, older and with lower educational attainments compared to formal workers.

Looking at the differences in characteristics of informal workers by type of economic unit in which they are employed, it emerges that those in the informal sector (which represent the majority of informal workers, see above for details) are even more likely to be men (68 per cent) and have slightly lower educational attainments, compared to the average informal worker. Informal workers in the formal sector are instead slightly younger, compared to the average informal worker, and report slightly higher educational attainments. This suggests that informal workers in the formal sector constitute a group whose characteristics lie in between those of formal workers and of informal workers in the informal sector. Finally, informal workers in the household sector share similar age and educational attainments with informal workers in the informal sector, but virtually all of them are women.

► **Table 2. Descriptive statistics for formal and informal workers**

	Formal workers	Informal workers	Informal workers		
			In formal sector	In informal sector	In household sector
Men (share)	0.51	0.65	0.60	0.68	0.01
Age (in years)	45.06	48.09	46.08	48.71	48.72
Education: Less than basic (share)	0.00	0.00	0.00	0.00	0.00
Education: Basic (share)	0.02	0.07	0.04	0.08	0.02
Education: Intermediate (share)	0.47	0.77	0.72	0.78	0.79
Education: Advanced (share)	0.51	0.16	0.23	0.14	0.19
Attending education (share)	0.04	0.01	0.02	0.01	0.01
N	28550	22421	5241	16652	528

Note: Author's elaboration based on data from the labour force survey.

Table A2 presents the results of a regression exercise, conducted with the purpose of understanding what lies behind the association between informal employment and (i) sex, (ii) age and (iii) educational attainments, as presented above. Specifically, the table presents the results of different regression models where the dependent variable always corresponds to the probability of being informally employed, compared to being formally employed. The first model does not include additional controls, other than variables for sex, age and educational attainments. The other models, instead, add controls for the sector of economic activity, the occupation of employment and firms' size. The aim is to understand whether the above associations between informality and sex, age and education hold even after including these controls, or it rather goes

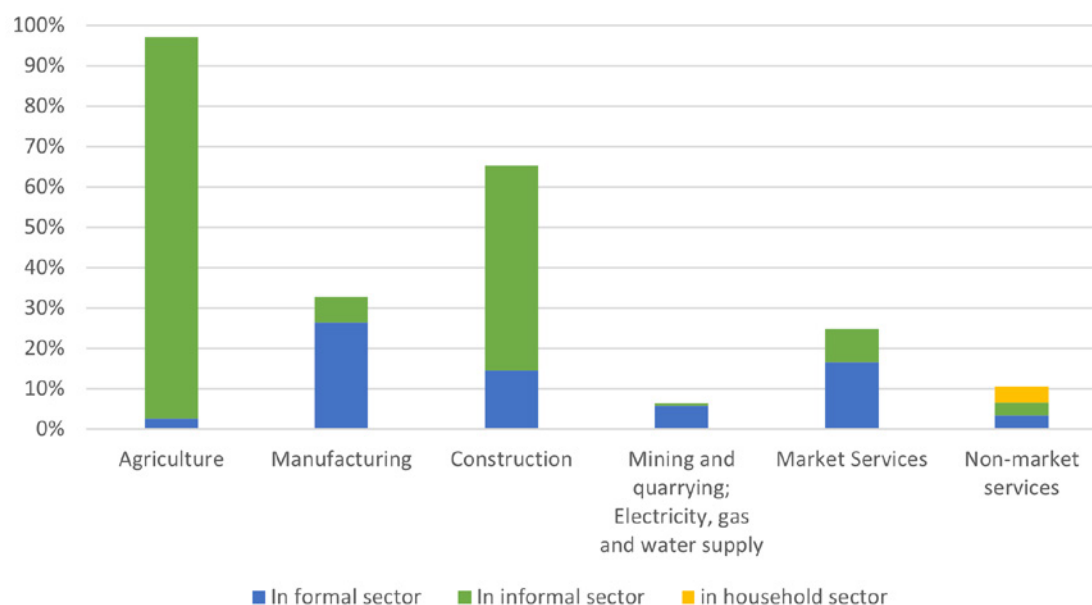
away. This is because many of the characteristics discussed above might interact (for example, more educated individuals are likely to work in certain industries, and this can also affect their probability of working informally).

The results reveal that age is a predictor of informality in all the models. This means that older individuals are more likely to be informally employed, even after controlling for the sector and the occupation of employment as well as the size of the firm. Instead, the positive association between sex and informality disappears after including dummies for the sector and the occupation of employment. This means that the higher likelihood of men working informally, as discussed above, simply reflects the fact that they are more likely to be working in sectors and occupations that are associated with a higher rate of informality rather than a male penalty associated with a higher risk of informal employment compared to women. The discussion that follows will shed further light on which specific sectors and occupations drive this result. Finally, the negative relationship between educational attainments and informality holds even after including additional controls, but only for individuals with intermediate or advanced levels of education. This means that acquiring a low level of education does not constitute, in itself, an advantage for working formally compared to individuals with no educational attainments. Only individuals with either an intermediate or an advanced level of education see a decrease in their probability of working informally.

► 3 The distribution of informal workers in the labour market

The discussion now shifts to analysing where informal workers work. To start with, figure 4 presents the rate of informal employment by broad sector of economic activity, together with the contribution of each type of economic unit (that is, in the formal, informal and household sectors) to informal employment in that specific sector. It shows that informal employment is the highest in the agriculture sector, where 98 per cent of employment is informal and where the vast majority of informal employment takes place in the informal sector. Informal employment is also high in construction (65 per cent), where again the majority of informal employment takes place in the informal sector. By contrast, in manufacturing, where the rate of informal employment is equal to 33 per cent, the majority of it takes place in the formal sector.

The rate of informal employment is instead lower in the service sector (both market and non-market services) as well as in mining and quarrying, electricity, gas and water supply. Table A3 presents the rate of male and female informal employment by detailed sector of economic activity, together with the distribution of male and female employment. It shows that, for men, the three main sectors of overall employment are agriculture, construction and wholesale and retail trade. The rate of informal employment for men is high in the first two sectors, while being relatively low in the latter. For women, instead, the three main sectors of economic activity are education, wholesale and retail trade and agriculture. Given that the education sector has a very low rate of informal employment (that is, most employees in this sector are public sector workers), this explains the lower rate of informal employment among women compared to men, as discussed above. That is, the lower likelihood of women in the labour market to be employed informally is driven, at least partially, by them being employed in sectors that present lower rates of informal employment in general (that is, for both women and men employed in that sector).

► **Figure 4. Rate of informal employment, by sector of economic activity**

Note: Author's elaboration based on data from the labour force survey.

Table 3 presents instead the rate of informal employment by occupation. It shows that, for both men and women, informality decreases rapidly while moving from low-skilled occupations (bottom of the table), towards high-skilled occupations. This is in line with the patterns by educational attainments, as discussed above. As a matter of example, the rate of informal employment is equal to 60 per cent among men in elementary occupations, while being equal to 5 per cent for men in managerial positions. For both men and women, virtually all those employed as skilled agricultural workers are employed informally, in line with the finding discussed above that virtually all employment in agriculture is informal.

It is also interesting to note the difference in the distribution of male and female employment across occupations. In particular, women are significantly more likely than men to be employed as professionals. This is compensated by the fact that men are more likely to work as craft and related trades workers as well as plant and machine operators. Given that the occupational groups where men are over-represented also report relatively high rates of informal employment, compared to professionals, this contributes to explaining the difference in the overall rate of informal employment between men and women. That is, in addition to differences in the distribution of male and female employment across sectors, the different distribution across occupations also explains the lower likelihood of women being employed informally.

► **Table 3. Rate of informal employment and distribution of employment, by sex and occupation**

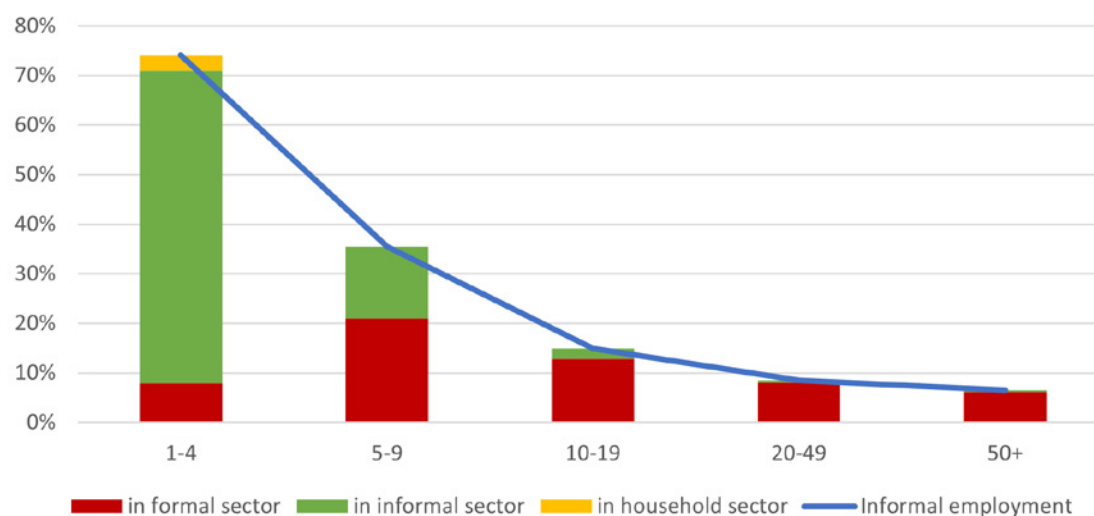
	Rate of informal employment		Distribution of employment	
	Male	Female	Male	Female
Managers	5%	3%	7%	5%
Professionals	8%	5%	10%	29%
Technicians and associate professionals	15%	6%	9%	11%
Clerical support workers	9%	5%	3%	6%
Service and sales workers	21%	36%	14%	21%
Skilled agricultural	98%	99%	19%	13%
Craft and related trades workers	58%	49%	17%	3%
Plant and machine operators	36%	27%	13%	1%
Elementary occupations	60%	43%	7%	10%
Armed forces occupations	0%	0%	1%	0%

Note: Author's elaboration based on data from the labour force survey.

Figure 5 examines which types of enterprises are more likely to hire informal workers, focusing on firms' size. It shows that the rate of informal employment is the highest in firms with less than 4 workers, where it reaches 74 per cent. In these firms, informal employment almost entirely takes place in the informal sector. The rate of informal employment then declines to 35 per cent in firms with 5 to 9 workers, 15 per cent in firms with between 10 and 19 workers, 8 per cent in firms with between 20 and 49 workers, and 7 per cent in firms with 50 workers and above. Additionally, as firm size increases, the rate of informal employment that takes place in the formal sector also increases. This is because large firms are predominantly operating in the formal sector, so any informal employment that takes place in large firms happens in the formal sector.

Figure A1 replicates the findings of figure 5, but separately for the agricultural and non-agricultural sector (panels A and B). It shows that the rate of informal employment is higher in the agricultural sector, compared to the non-agricultural sector, for firms of any size. It also shows that, among small firms in agriculture, all informal employment takes place in the informal sector. However, among larger firms in agriculture, informal employment is roughly equally distributed between formal and informal sectors.

► Figure 5. Rate of informal employment by firm's size



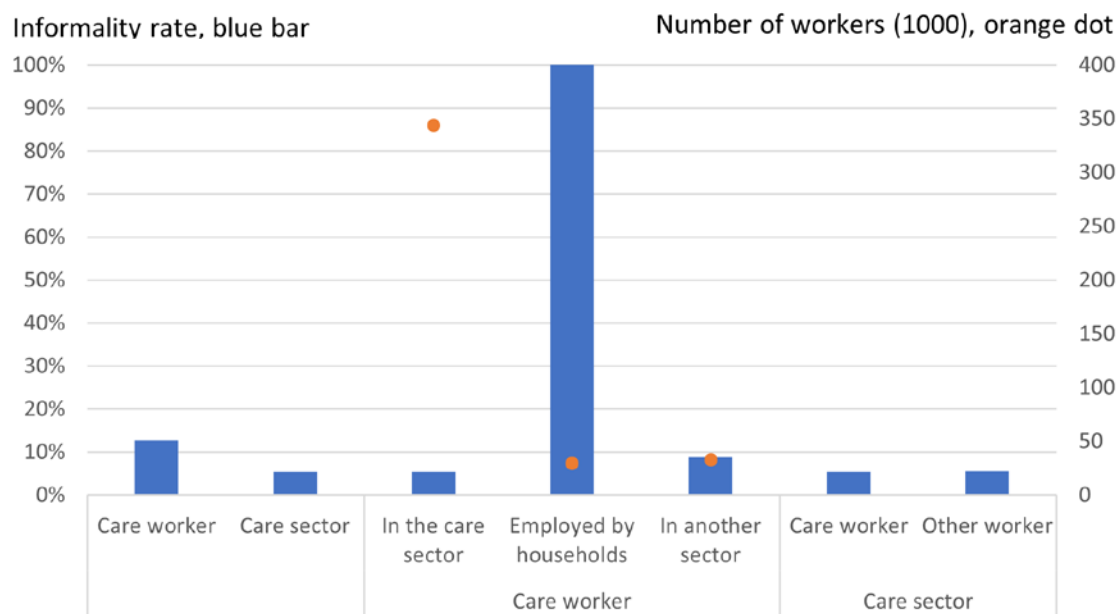
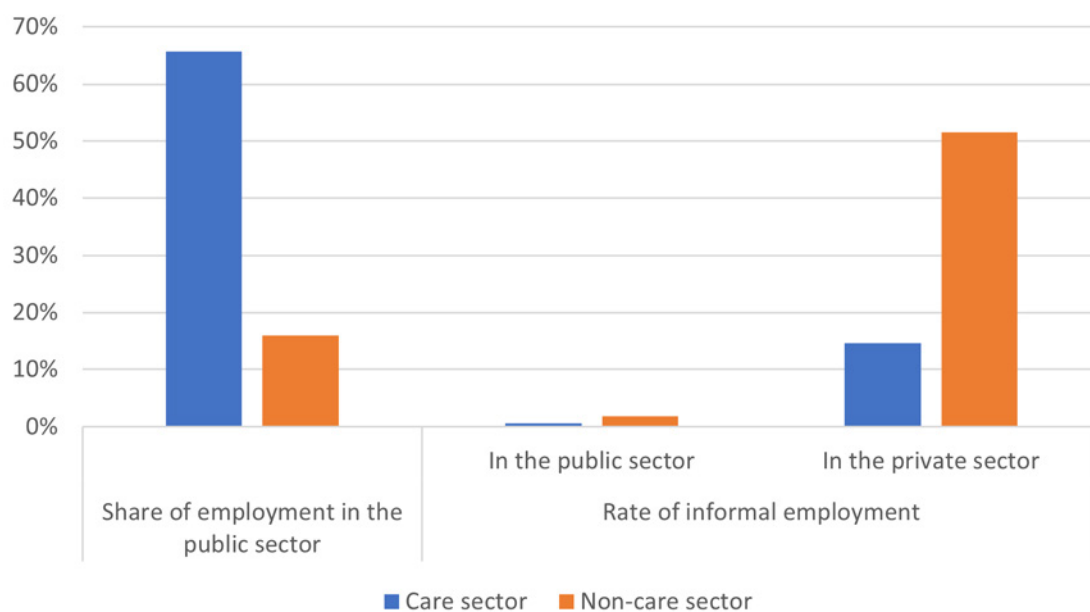
Note: Author's elaboration based on data from the labour force survey.

A final aspect of interest, when it comes to the distribution of informal employment in the labour market, refers to its prevalence in the care sector. This sector represents an important source of employment, especially for women. However, it is often associated with poor working conditions.

Panel A of figure 6 presents the distribution of care workers across sectors (orange dot), as well as the rate of informal employment among care workers and in the care sector (blue bars). According to the ILO definition of care workers, they can be employed in the care sector, by households or in another sector. The data shows that, in Georgia, the vast majority of care workers, or 85 per cent of the total, are employed in the care sector. The remaining share of care workers is roughly equally distributed between those who are employed by households and those employed in the non-care sector.

This result has important implications for the observed rate of informal employment. In particular, the rate of informal employment is rather low among care workers (at 13 per cent, compared to 37 per cent for the entire labour market, as discussed at the beginning of this note). This is because most care workers are employed in the care sector (as discussed above) and the care sector presents low rates of informal employment for all its workers (that is, both for care and non-care workers). In short, care workers seem to benefit from a formality premium associated with working in the care sector.

Panel B of figure 6 aims to understand the sources of this formality premium associated with the care sector. Specifically, it shows (left side of the figure) that the vast majority of employment in the care sector (equal to 66 per cent) takes place in the public sector. This is different from the situation of all other (that is, non-care) sectors, where public employment constitutes only 16 per cent of total employment. Given that informal employment is extremely low in the public sector (both in the care sector and in other sectors), this may explain why the care sector shows a lower rate of informal employment.

► **Figure 6. Employment and informal employment in the care economy***Panel A. Rate of informal employment and number of workers**Panel B. Rate of public sector employment and rate of informal employment*

Note: Author's elaboration based on data from the labour force survey.

► 4 Earnings, income sources and working conditions

This section looks at the working conditions of informal workers, with a view of assessing the quality of the employment they have. Starting from information on individuals' earnings, table 4 reports the share of individuals with monthly earnings within specified brackets. The data shows that, on average, informal workers earn less than formal workers. Specifically, 24.1 per cent of informal workers earn less than 300 Georgian Lari (GEL) per month (approximately US\$ 110 per month), while the same is true for only 12.1 per cent of formal workers. Informal workers are also over-represented in the group of workers earning between 300 and 500 GEL per month, while they are under-represented in higher wage brackets. While this data clearly reveals that informal workers earn on average less than formal workers, it is also worth highlighting that the variable reporting the earnings information is missing for 32.5 per cent of formal workers and 71.6 per cent of informal workers (see last row of the table).

Specifically, the earning information is missing for most informal workers who work in the informal sector, which constitute the majority of informal workers in Georgia, as discussed above. Within this group, the earnings information is reported in the labour force survey for only around one worker out of ten. Bearing this caveat in mind, the analysis also shows that, among informal workers, those employed in the informal sector earn lower wages. Specifically, 33.6 per cent of informal workers in the informal sector earn less than 300 GEL per month, compared to 21.9 per cent of informal workers in the formal sector and 15.7 per cent of informal workers in the household sector. This suggests that informal workers in the informal sector face highly disadvantaged working conditions, also compared to other types of informal workers.

► **Table 4. Distribution of formal and informal workers by earnings brackets**

	Formal workers	Informal workers	Informal workers		
			In formal sector	In informal sector	In household sector
Less than 300 GEL	12.09	24.1	21.86	33.6	15.68
300–500 GEL	23.22	29.47	30.36	26.68	29.78
500–1000 GEL	45.46	33.35	34.81	28.31	35.71
More than 1000 GEL	19.22	13.08	12.97	11.58	18.84
Share missing	32.46	71.6	28.3	90.59	35.81

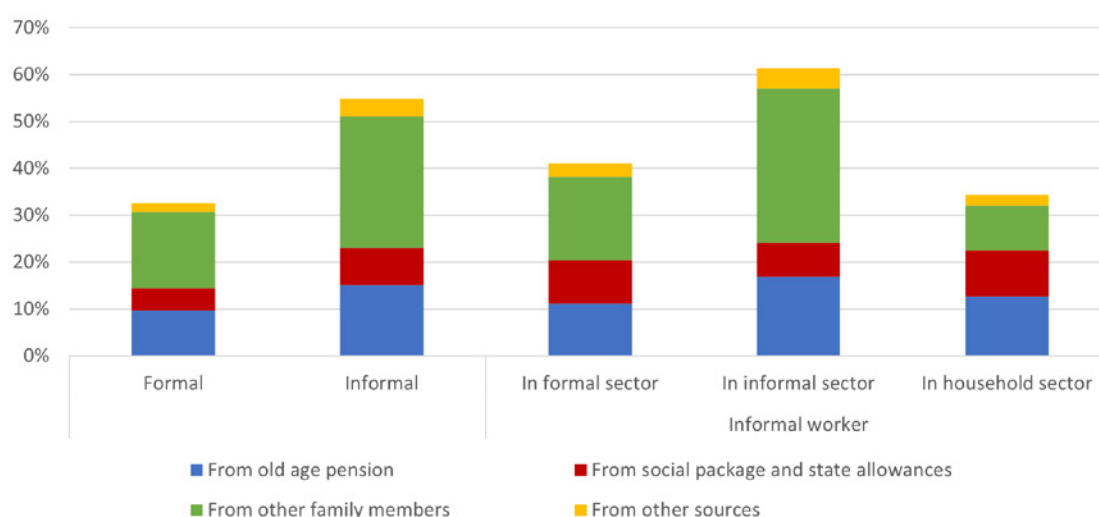
Note: Author's elaboration based on data from the labour force survey. The last row reports the share of respondents, within each group, that have missing information for this variable. 300 GEL equal approximately US\$ 110.

In order to further explore this hypothesis, the analysis looks at the self-reported income sources used by the individual in the previous month. Specifically, figure 7 presents, separately for formal and informal workers, the share of individuals reporting any source of non-labour income. The data shows that informal workers rely relatively more than formal workers on other source of income (that is, different from labour income). Specifically, 55 per cent of informal workers use some other sources of income, compared to 33 per cent of formal workers. This difference is consistent with the need of compensating for the lower labour income received by informal workers, as discussed above. Looking at the different sources of income to which they rely, it

emerges that informal workers are slightly more likely than formal workers to receive (i) income from old age pension (remember that informal workers are on average older than formal workers), (ii) income from social package and state allowances, and (iii) income from other sources. However, the main difference is represented by the share of respondents that report (iv) receiving income from other family/household members: this is equal to 16 per cent among formal workers and 28 per cent among informal workers. Overall, the data suggests that, in order to compensate for the lower labour income, informal workers turn to their families.

Once again, it is interesting to observe differences across types of informal workers (right side of figure 7). The picture that emerges is that informal workers in the informal sector rely relatively more on other sources of non-labour income, compared to other types of informal workers. Specifically, 61 per cent of informal workers in the informal sector report having used another source of income in the last month, compared to 41 per cent of informal workers in the formal sector and 34 per cent of informal workers in the household sector. For all types of informal workers, the main alternative income source is income from family members.

► **Figure 7. Share of individuals reporting any source of income used in the previous month**



Note: Author's elaboration based on data from the labour force survey.

Finally, the discussion covers other characteristics of the employment relationship, and how they differ between formal and informal workers. Starting with variables related to the number of hours worked, it appears that formal workers work on average more hours than informal workers (42.2 compared to 38.6 hours per week, respectively). This is because informal workers in the informal sector work fewer hours (35.6 hours per week), while the other types of informal workers (that is, those in the formal and household sectors) work more hours than formal workers. As a result, the share of part-time employment is higher among informal workers (reaching 47 per cent for informal workers in the informal sector). Despite the higher prevalence of part-time employment, informal workers are more likely to work evenings and weekends.

When it comes to the type of contract held by individuals, two dimensions of interest are examined. The first one relates to the duration of the contract (namely, permanent, temporary or unknown). With respect to this aspect, most informal workers in the informal sector (equal to 90 per cent) report not knowing the duration of their contract. These shares are instead much lower among other types of informal workers, as well as among formal workers. A similar picture

emerges by looking at the type of contract (that is, written, oral or unknown). For 90 per cent of informal workers in the informal sector, the type of contract is unknown, while the remaining 10 per cent report having only an oral contract. The situation is quite different from that of formal workers, where 86 per cent report having a written contract. Instead, informal workers in the formal sector and (especially) those in the household sector are more likely to have an oral contract.

► **Table 5. Working conditions of formal and informal workers**

	Formal workers	Informal workers	Informal workers		
			In formal sector	In informal sector	In house-hold sector
Working hours					
Usual number of hours worked	42.15	38.60	46.71	35.60	52.76
Part-time	0.18	0.39	0.17	0.47	0.09
Voluntary part-time	0.16	0.10	0.14	0.09	0.13
Working in the evening	0.26	0.29	0.33	0.27	0.40
Working on Saturday	0.51	0.87	0.79	0.91	0.69
Working on Sunday	0.35	0.74	0.54	0.83	0.21
Type of contract					
Permanent contract	0.84	0.20	0.71	0.03	0.53
Temporary contract	0.02	0.11	0.19	0.07	0.40
Unknown duration	0.14	0.69	0.10	0.90	0.07
Written contract	0.86	0.10	0.39	0.01	0.02
Oral contract	0.00	0.22	0.53	0.10	0.98
Unknown contract	0.14	0.68	0.08	0.90	0.00
Other working conditions					
Work from home	0.05	0.05	0.03	0.05	0.11
Short commuting	0.80	0.88	0.83	0.90	0.76
Supervisory role	0.13	0.04	0.05	0.01	0.01
Attended non-formal education	0.01	0.00	0.00	0.00	0.00
N	28550	22421	5241	16652	528

Note: Author's elaboration based on data from the labour force survey. Note that information on (i) voluntary part-time, (ii) short commuting, and (iii) supervisory role is not available for the full sample of individuals.

Finally, the labour force survey reports information on other working conditions. The share of workers who report working from home is similar between formal and informal workers, while the share of individuals reporting a short commuting distance (equal to or less than 30 minutes) is higher among informal workers. This might be explained by the fact that formal jobs are more likely to be in larger companies, which might not be located in close proximity to where individuals live. Formal workers also report a three-times higher probability of having supervisory roles, compared to informal workers. Finally, very few formal workers (and virtually no informal worker) report having attended some form of training in the last four weeks.

► 5 Possible drivers of informality

Informal employment is often seen as a source of employment of last resort for women and men who cannot find a job in the formal sector of the economy. Similarly, firms that operate informally are generally perceived as having low productivity and revenue levels, making them unable to sustain the costs of operating formally. While these views capture an important part of the phenomenon, in many countries the reality is often more complex. For instance, not all workers who are employed informally are low-skilled and work in low-skilled jobs. Similarly, some informal firms might be productive enough to potentially afford the costs of operating formally but decide to remain in the informal sector to reduce taxes and other costs.

This means that informality is a complex and multi-faceted phenomenon; the drivers of which can greatly differ and go beyond the labour market. In line with this hypothesis, international evidence clearly points out that informality does not disappear as countries grow. Rather, informality has remained persistent even in countries that have experienced sustained economic growth. This is also the case in Georgia, where, as discussed above, informal employment still accounts for around 40 per cent of total employment, despite the country having experienced sustained economic growth over the last decades. In particular, the evidence shows that rate of informal employment in Georgia is higher than what would be predicted by the country's GDP level (World Bank 2022).

Based on a review of the existing international literature (ILO 2021), as well as an analysis of the specific characteristics of informal employment in Georgia and discussions with national stakeholders, it is possible to identify some drivers of informality in the country. These are (i) macroeconomic factors, (ii) characteristics of firms and workers, and (iii) regulatory framework, public institutions and enforcement.

- *Macroeconomic factors:* Macroeconomic factors relate to the economy's inability to create enough formal jobs that the population is willing and able to work. This inability can, in turn, be related to different forces. These forces can either be of temporary nature (that is, driving a temporary increase in informality), or, alternatively, be of long-lasting and structural nature.
- Low labour demand and high poverty rates: In most countries around the world, one of the main causes of persistently high rates of informality is the lack of adequate labour demand in the formal sector of the economy. This, in turn, can be related to a series of constraints to economic growth. Among others, high poverty rates negatively affect labour demand and reduce firms' growth potentials and investments. As a result, most jobs are available in small and low-productivity firms in the informal sector. For all these reasons, high levels of poverty can contribute to informal employment. In Georgia, the poverty rate has decreased substantially from 37.3 per cent in 2010 to 19.5 per cent in 2019 (World Bank 2022). This might have contributed to the long-term reduction in informality in the country (World Bank 2022). However, additional interventions to support economic growth and strengthen labour demand in the formal sector are likely to positively contribute to the formalization of the economy.
- Distribution of employment across sectors: Another macroeconomic driver of informality relates to the distribution of employment across sectors. As discussed above, the rate of informal employment varies greatly across sectors, being the highest in agriculture and construction. In most countries, one of the drivers behind sustained reductions in

informality is represented by the shift in employment from agriculture to manufacturing and services. However, in Georgia, still more than one out of three men in employment is employed in either agriculture or construction. In this context, promoting the shift of employment from construction and agriculture towards manufacturing and services would likely decrease the rate of informal employment. For this transition to apply, interventions to support both firms (for example, fiscal incentives for firms to grow) and workers (for example, training to perform jobs in new sectors) are key. An important phenomenon also concerns the implications of the rise of the so-called gig economy. Companies in the gig economy are often capital intensive, with only very few individuals working formally. Therefore, the expansion of the gig economy can represent an obstacle to the formalization of the labour market, unless appropriate policy interventions are put in place.

- *Characteristics of firms and workers:* While macroeconomic factors play a key role, other important determinants of informality are the characteristics of workers and firms that operate in the economy. Specifically, these factors can affect both the overall level of informal employment in a country, as well as its distribution across different types of enterprises and workers.
- *Firms' and workers' low productivity:* The evidence shows that, on average, less productive firms have a higher rate of informal employment. This is also evident from the fact that, as discussed above, informal employment in Georgia is substantially higher in smaller firms, which are normally associated with lower productivity levels, compared to larger firms in the same sector. Similarly, in most countries around the world, informality is more prevalent among individuals with low levels of education and low skill endowments. This pattern also holds in Georgia, and it relates to the fact that, on average, workers in informal employment tend to be less productive compared to those in formal employment, therefore likely to be filled by workers with lower education and skills endowments. The low levels of skills endowments in the population, especially among older individuals, can thus also explain the persistence of informality in Georgia (World Bank 2022). Introducing measures to raise workers' and firms' productivity, in addition to contributing to higher economic growth, will thus also lead to the formalization of an important segment of the labour market.
- *Limited access to financial resources and markets:* Greater access to financial resources and external markets can also increase formal employment. Specifically, firms that rely on financial markets for financing (for example, loans) or that operate through imports and exports, can only operate formally. This implies that, under certain conditions, promoting firms' expansion and internationalization also can contribute to increasing formal employment. Unfortunately, very few firms export in Georgia. Additionally, the export basket remains relatively unsophisticated and with low value added (World Bank 2022).
- *Regulatory framework, public institutions and enforcement:* Finally, an important role in explaining informality is played by the tax system, labour market policies and institutions. This does not refer exclusively to the presence of these policies and institutions but also to the way in which they are implemented in practice.
- *Social protection:* The social protection system represents one of the key drivers of formalization in most countries. This is because, by providing benefits to workers who are formally employed, social protection generates incentives to formalize. However, in Georgia benefits to formal workers are limited and, in particular, there is no unemployment insurance for individuals who lose a formal job. Maternity and paternity leave benefits also have very low coverage and often are inadequate. In this context, the absence of adequate social protection benefits associated with formal employment might reduce the incentives of informal workers to formalize, as also reported by social partners. At the same time, disincentives to formalization might be connected to the fear of losing social assistance

benefits in case of formal employment. Indeed, social assistance benefits mostly target, either directly or indirectly, individuals who are not in formal employment. Discussions with social partners have confirmed that some individuals might prefer working informally and receive social assistance, rather than moving to the formal sector and lose their benefits. This is also because that wages in the formal sector are rather low.

- **Labour legislation:** A traditional view of informality regards the presence of employment protection legislation as one of the key drivers of informality. According to this view, rigid regulation make employment in the formal sector excessively expensive, therefore driving the rise in the informal economy. However, a wealth of evidence from different countries and using different research methodologies did not find any causal evidence for the link between the strictness of employment protection legislation and informality. Rather, some studies found that an adequate and well-designed system of labour laws can promote formal employment and enterprise creation by generating an enabling environment for enterprises to grow and for workers to invest in their skills and education. This conclusion seems also to hold in Georgia. Nevertheless, ill-designed labour legislation or the lack of adequate incentives can create obstacles to formalization. In Georgia, this seems to apply to the fact that many workers report working informally because of the more flexible nature of employment, which allows them to also better align work with their family responsibilities. In this context, incentives could be introduced to promote the use of more flexible work arrangements (for example, part-time employment) among formal-sector firms. This will allow individuals who are currently working informally to transition to formal employment, while at the same time retaining the desired level of working flexibility.
- **Tax system:** The tax policy and tax administration systems can also contribute to reducing the incentives to operate informally. In Georgia, recent changes to the legislation have introduced electronic systems and user-friendly online services (ILO and GEA 2021). However, other aspects of the tax system can inadvertently contribute to higher informality. These include the presence of a series of preferential tax regimes that increases incentives for firms to under-report their activities. Evidence shows that firms are aware of these thresholds and strategically report their revenues (World Bank 2022). Similarly, an absence of bookkeeping or accounting requirements can also contribute to increasing informality in the country. For these reasons, tax regulation should be assessed in order to eliminate possible obstacles to formalization. At the same time, it is also important to reinforce citizens' trust for the state. Indeed, workers and firms will be unwilling to formalize and pay taxes if they do not trust the state management of public resources and do not see social returns on the taxes they pay (for example, public services).
- **Administrative requirements and other regulations:** Evidence from many countries shows that a reduction in administrative barriers and requirements needed for firms to register can contribute to promote the formalization of the informal economy. In this sense, a model of one-stop-shops for formalization, a streamlining of registration procedures and a reduction in registration costs can all increase formal employment. Georgia has undertaken important steps in this respect by promoting the simplification of business registration procedures and business start-ups and by adopting the usage of one-stop-shops through the "Public Services Development Agency". However, regulations hampering a transition from the informal to the formal economy might also go beyond the labour market. In particular, discussions with social partners in Georgia have highlighted that many people in debt to their banks do not want to be hired formally because any outstanding debt amount would be deducted from their salaries. Regulations should thus be amended in order to avoid any disincentives to formal employment.

► Conclusion

This report underscores that informal employment remains a widespread and persistent feature of Georgia's labour market, affecting nearly four in ten workers. It is not confined to any single group or sector, but rather reflects a complex interplay of individual characteristics, enterprise structures, and broader economic and institutional conditions.

While informal work can sometimes serve as a necessary coping strategy in the absence of formal opportunities, it often comes at the cost of lower earnings, weaker job security, limited access to social protection, and a lack of voice and representation. The data shows that informality is more prevalent among older individuals, those with lower levels of education, and workers in small enterprises and rural or low-productivity sectors such as agriculture and construction. Women and men also experience informality differently, with women more often concentrated in unpaid or family-based roles, and men more likely to be self-employed in informal enterprises.

Importantly, this analysis reveals that informality is not simply a result of individual choices but is shaped by structural factors – such as limited formal job creation, weak enforcement of labour regulations and insufficient incentives to formalize. Gaps in the design and coverage of social protection, inadequate maternity and unemployment benefits, and features of the tax and debt enforcement systems may further reduce the attractiveness of formal employment for both workers and enterprises.

For policymakers, social partners and development partners, these findings point to the urgent need for a coordinated and integrated approach to formalization. Addressing informality should be seen not only as a labour market reform but as a strategic investment in Georgia's economic resilience, social cohesion and sustainable development.

Efforts should focus on:

- Creating more and better jobs in the formal economy, particularly in higher productivity sectors.
- Expanding access to quality education and skills training.
- Enhancing the incentives and benefits associated with formal employment – especially in relation to social protection and working time flexibility.
- Reducing administrative and legal barriers to formalization, especially for micro and small enterprises.
- Strengthening labour market institutions and compliance mechanisms, while ensuring they are inclusive and gender responsive.

Ultimately, reducing informality will require a shared commitment across government, employers' and workers' organizations, and development partners. Only through sustained dialogue, evidence-based policy, and integrated action can Georgia realize its vision of decent work for all.

Appendix

► Table A1. Rates of employment and informal employment, by sex and educational attainments

	Panel A. Male				
	Employment rate	Informal employment	Informal employment in formal sector	Informal employment in informal sector	Informal employment in household sector
No schooling	7.9%	94.3%	4.4%	89.9%	0.0%
Primary education	19.0%	83.0%	2.5%	80.6%	0.0%
Lower secondary education	21.5%	71.9%	12.7%	59.1%	0.1%
Upper secondary education	47.8%	54.9%	12.5%	42.4%	0.1%
Post-secondary non-tertiary education	53.5%	48.6%	12.7%	35.9%	0.0%
Bachelor's or equivalent level	68.9%	18.6%	7.5%	11.1%	0.0%
Master's or equivalent level	61.7%	23.8%	8.4%	15.4%	0.0%
Doctoral or equivalent level	69.4%	0.0%	0.0%	0.0%	0.0%
	Panel B. Female				
	Employment rate	Informal employment	Informal employment in formal sector	Informal employment in informal sector	Informal employment in household sector
No schooling	3.0%	91.2%	23.6%	67.6%	0.0%
Primary education	4.8%	78.9%	0.5%	78.4%	0.0%
Lower secondary education	9.5%	69.0%	15.2%	51.5%	2.2%
Upper secondary education	23.8%	55.7%	14.7%	36.6%	4.4%
Post-secondary non-tertiary education	37.3%	36.2%	12.7%	19.6%	3.9%
Bachelor's or equivalent level	57.2%	6.2%	2.8%	3.1%	0.3%
Master's or equivalent level	52.0%	13.3%	5.9%	5.7%	1.7%
Doctoral or equivalent level	69.0%	4.3%	4.3%	0.0%	0.0%

Note: Author's elaboration based on data from the labour force survey.

► Table A2. The determinants of informality

	Informal worker			
	(1)	(2)	(3)	(4)
Age	0.004*** (0.000)	0.002*** (0.000)	0.001*** (0.000)	0.001*** (0.000)
Male	0.090*** (0.005)	0.009** (0.004)	0.001 (0.004)	-0.006 (0.004)
Education: Basic	-0.194*** (0.040)	0.016 (0.031)	0.012 (0.030)	0.034 (0.023)
Education: Intermediate	-0.424*** (0.038)	-0.078*** (0.030)	-0.063** (0.029)	-0.029 (0.022)
Education: Advanced	-0.750*** (0.038)	-0.188*** (0.030)	-0.113*** (0.029)	-0.071*** (0.022)
Constant	0.678*** (0.039)	0.967*** (0.031)	0.587*** (0.033)	0.748*** (0.029)
Sector dummies	No	Yes	Yes	Yes
Occupation dummies	No	No	Yes	Yes
Firm-size dummies	No	No	No	Yes
Observations	50,971	50,971	50,971	47,793
R-squared	0.162	0.519	0.546	0.605

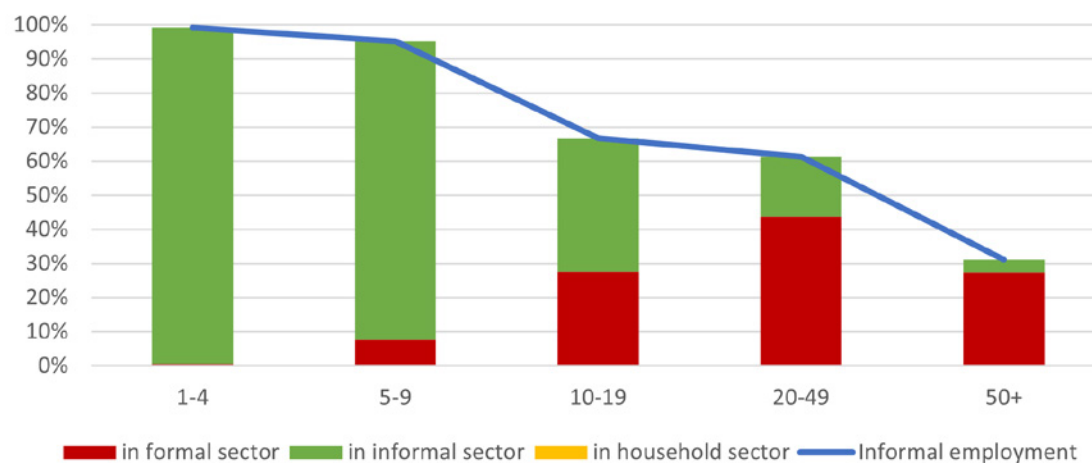
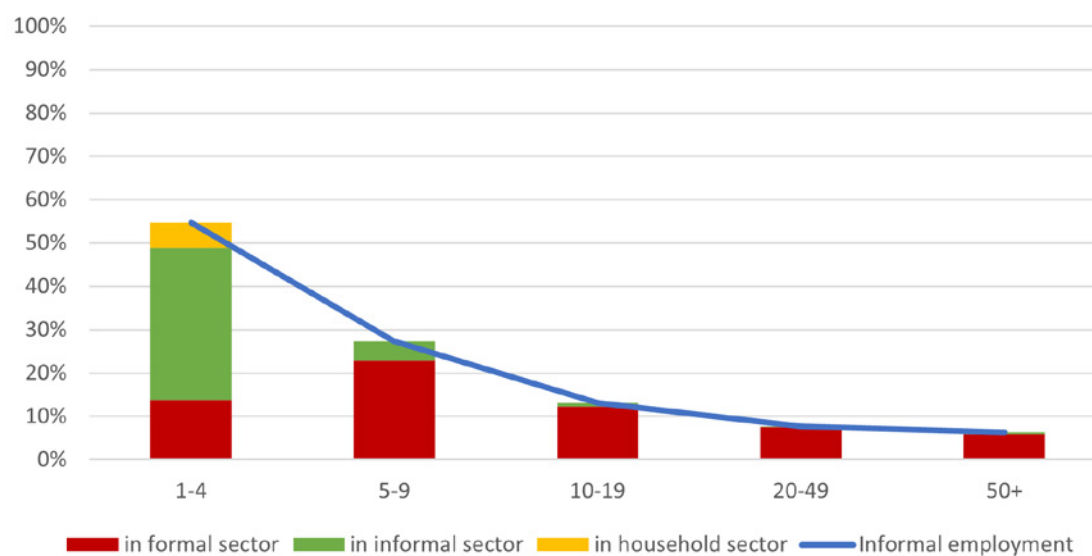
Note: Author's elaboration based on data from the labour force survey. The table presents the results from different regressions, run on the sample of employed individuals. The outcome of interest is always a dummy equal to one if the individual is informally employed, and zero otherwise. The different models differ based on the covariates included in the analysis. Robust standard errors are in parenthesis. Sampling weights are used in all specifications. *, ** and *** denote statistical significance at the 10, 5 and 1 per cent level; respectively.

► **Table A3. Rate of informal employment and distribution of employment, by sex and sector of economic activity**

	Rate of informal employment		Distribution of employment	
	Male	Female	Male	Female
Agriculture, forestry and fishing	96.5%	98.2%	21.1%	14.9%
Mining and quarrying	9.3%	0.0%	1.4%	0.1%
Manufacturing	31.0%	35.5%	9.0%	6.8%
Electricity, gas, steam and air conditioning supply	4.5%	0.0%	1.8%	0.5%
Water supply; sewerage, waste management and remediation activities	7.2%	7.6%	1.9%	1.0%
Construction	67.3%	7.0%	14.1%	0.6%
Wholesale and retail trade; repair of motor vehicles and motorcycles	26.5%	25.9%	13.6%	16.6%
Transportation and storage	34.3%	6.4%	9.9%	1.7%
Accommodation and food service activities	35.2%	41.5%	2.3%	4.0%
Information and communication	7.3%	6.4%	1.5%	1.2%
Financial and insurance activities	5.2%	1.6%	1.5%	3.4%
Real estate activities	29.2%	11.9%	0.4%	0.3%
Professional, scientific and technical activities	7.7%	10.3%	1.4%	2.2%
Administrative and support service activities	14.9%	43.8%	1.9%	1.5%
Public administration and defence; compulsory social security	0.4%	1.4%	8.8%	5.5%
Education	5.6%	4.8%	4.0%	21.7%
Human health and social work activities	8.1%	6.3%	1.7%	10.1%
Arts, entertainment and recreation	12.2%	6.9%	2.1%	2.8%
Other service activities	56.9%	32.5%	1.4%	2.2%
Activities of households as employers	100.0%	100.0%	0.0%	2.7%
Activities of extraterritorial organizations and bodies	0.0%	6.0%	0.2%	0.1%

Note: Author's elaboration based on data from the labour force survey.

► Figure A1. Rate of informal employment by firm's size

Panel A. Agriculture*Panel B. Non-agriculture*

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The International Labour Organization is the United Nations agency for the world of work. We bring together governments, employers and workers to improve the working lives of all people, driving a human-centred approach to the future of work through employment creation, rights at work, social protection and social dialogue.

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