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Informal entrepreneurship under transition: causes and specific features

Abstract

The paper deals with informal entrepreneurial activity under transition. It stress that in some transitional environments there are not only the usual constraints of start-up stage but some additional incentives to become and remain informal. The authors focus on different reasons of doing business informally in transitional countries, explaining them on the base of some case studies from Russia and Ukraine. They show that high levels of informality contained within the sector are resulting from the character of the country's socio-economic model. Thus, the nature and strategies of informal entrepreneurship are dependent on the impact of 'political entrepreneurship', which, in turn, affects the structure of entrepreneurship – whether it is a 'productive' or 'unproductive' entrepreneurship dominating. Moreover, a new approach to cluster transitional countries is offered, using not only political or economical criteria, but also the dominant type of entrepreneurship and main reasons of informal entrepreneurial activity. From this point of view, three different groups of transitional countries are identified.

Three questions to discuss

1. Are the peculiarities of informal entrepreneurship under transition mostly country specific, or they dependent on the nature of the emerging socio-economic order?
2. Is a typology of entrepreneurship based on motivation type and level of formality appropriate to explain differences in entrepreneurial strategies under transition?
3. Which kind of methods of empirical research seems to be more appropriate to explain transition-specific features of entrepreneurship?

State of research

In spite of a significant amount of relevant literature (Castells and Portes, 1989; Portes and Haller, 2005), the specifics of informal entrepreneurship in transitional economies is still under-represented (Feige, 1997; Peng and Shekshnia, 2001; Aidis and van Praag, 2007; Gerxhani, 2004; Huang, 2009; Aidis et al., 2010; Estrin and Mickiewicz, 2011; Kiss et al., 2012; O'Brien,

2012). The aim of the present paper is to focus on some specific features of this phenomenon basing on some quantitative data but mainly on the results of some qualitative surveys in Russia and Ukraine in late 2000s. However, before to discuss our observations and results, it clarifies some terms and definitions. First, in our view, it distinguishs between informal, or unofficial (La Porta and Shleifer, 2008), economy which as a broader term and entirely illegal forms of economic activity. Aidis and van Praag (2007) have explored the relationship between illegal entrepreneurial activity and business performance and motivation, observing the illegal mainly as a synonym of entrepreneurial activity in a 'gray' or 'black' economy. They found that illegal entrepreneurial activity is a 'signal of future motivation to continue and grow a business in a market-oriented economy. IEE has no productive value, in general, but does have predictive value of higher levels of motivation to continue and grow legal businesses', moreover, some 'underlying unobserved characteristics' – namely, 'perseverance and optimism about future economic conditions and one's own performance' – pull people to start any illegal entrepreneurial activity and foster their motivation (2007, p. 306).

This type of entrepreneurial activity, as well as a genuine criminal business, well described by Volkov under the label 'violent entrepreneurship' (1999), however, forms a relatively closed and different stratum – contrary to informal, or unofficial ones. Based on the data of the longitudinal representative study of Russian households, the RLMS, Gimpelson and Zudina (2011) came to the conclusion that among the adult population of Russia in 2010 11% belonged to the group of wage and salary workers, whilst 3% - to the group of self-employment.

Informal entrepreneurship does not imply a break with established laws – it is mainly using some not clearly regulated practices based on 'usual norms and values'. We consider rather another type of entrepreneurial activity which is to differentiate the informal economy from the illegal, or 'renegade economy' (e.g., Portes and Haller, 2005; Webb et al., 2009); in the latter, the means and ends are illegal and illegitimate, whilst the informal economy – and informal entrepreneurship – is based on shared 'usual' norms and values which from different reasons are not embedded formally, or do not coincide with the latter. In some sense each enterprise, even formal ones, sometimes use informal procedures of hiring of personnel etc., not one of them is acting totally according only to formal norms and rules.

Thus, we share the approach of Renooy (1990) who defined several specifics of the informal sector when compared with the formal economy: (1) formal regulations and rules are absent; (2) a higher degree of flexibility than in the formal labor market; (3) not the organization but the form of payment which differs compared to the formal economy; (4) these activities take place both within and outside formal contexts and strongly interact with each-other; (5) no complete information; (6) the sector itself is very fragmentary; (7) various (informal) activities are

complementary to some formal activities of entrepreneurs because sometimes one activity alone does not produce sufficient income; (8) a low entrance threshold to the informal sector; (9) the price of goods and services in this economy is lower than in the formal one; (10) a lower capital intensity in informal economy; (11) a lower level of productivity; (12) the informal sector relies predominantly on social / family networks; (13) sometimes informal activities emerge as a result of an absence of access to the formal activities.

Why do people engage in informal sector? Renooy argued that there are two main groups of factors determining the decision to be active in the informal sector, more specifically, the 'structural' and 'opportunity' factors. The structural factors are financial pressures; socio-psychological pressures and institutional constraints. The opportunity factors are mainly individual background (like skills, education, social contacts and living situation) or social components, such as environment, cultural tradition, values and standards, as well as geographical factors. It is implied that both structural and opportunity factors 'push' people to seek for any job within informal economy – hence, in more advanced market economies engagement into informal economy should be transitional, being a sign of a (temporary) lack of social and economic resources to integrate into formal economic life. In other words, actors should seek to leave informal economy as soon as possible to have better access to economic and social benefits of well functioning markets and social environments.

Despite Gerxhani stressing that "studies in developed countries show that the informal sector offers possibilities for growth, whereas research in less developed countries provides evidence that survival is the main characteristic of the informal sector there" (Gerxhani, p.293-294), the evidence of the RLMS based analysis of subjective well-being and status perception, enabled Gimpelson and Zudina (2011) to make conclusions very similar to Maloney's (2004) observations of some Latin America countries - informality doesn't negatively affect the subjective social status of people engaged in it, and as regards the self-employed, it is rather positive and better than even by formal employees. So, informal sector engagement in transitional country like Russia and some developing countries occurs as a good choice in the eyes of native population.

Second, it is to make a distinction between any form of informal economic activity and informal *entrepreneurship*. Despite many authors treating informal entrepreneurship as a part of informal employment, we share the view of Maloney (2004) that these two types of actors in the informal economy differ significantly – informal employees and informal self-employed. The latter usually choose to be informal (being pushed or pulled to do so) and receive some monetary surplus from their shift to informality. Especially in developing countries the lack of institutional

trust regulating the formal economy and some other reasons can become the major incentive for the informal entrepreneurship.

The importance of this distinction is stressed by Gimpelson and Zudina (2011) who divided into five different categories people engaged in 'informal economy', namely:

- entrepreneurs without registration of their businesses;
- self-employed;
- informal wage and salary workers hired by private persons;
- informal wage and salary workers hired by formal firms and working without any sign written contract
- irregular workers

The first two categories they combined into the group of 'self-employed' while the second two categories - into the group of 'informal wage and salary workers. The last category was analyzed separately from these two groups.

Some authors argue that despite that informal economic activities were wide spread even before the transition the rapid growth of the informal sector from a relatively low base has been a notable feature of transition, especially during its early stage (Kaufmann and Kaliberda, 1996; Commander and Tolstopiatenko, 1997). It is important to stress thought that this rapid growth is common for both developed and transitional countries: 'there is a common finding that the shadow economies of most transition and all investigated OECD countries have been growing over the past decade' (Schneider and Enste, 2000, p. 107). Instead, what was different in the development of informal economic activity in transitional countries in 1990-2000, was the steadily and rapid process of transformation of some informal economic activities (outside of main field of economic engagement) into a regular *business per se*.

Who are the informal entrepreneurs under transition, where are they coming from? How are they motivated to start up and remain for longer within the sphere of informal entrepreneurship? Some studies of micro-entrepreneurship under transition identifies it with informal entrepreneurship, showing that it is characterized by special recruitment patterns and rewards when compared to more advanced entrepreneurial forms (Rona-Tas and Sagi, 2005). Moreover, some authors, referring to late Soviet and early transition stage, make emphasis on the late Soviet 'shadow economy' (Commander and Tolstopiatenko, 1997; Earle and Sakova, 2000; Rehn and Taalas, 2004; Aidis and van Praag, 2007), however, during especially the first stage of transition many former state owned plants employees were been pushed into informal entrepreneurship – 'street entrepreneurship' as a hidden form of unemployment (Earle and Sakova, 2000) or suitcase trading 'shuttles' (Eder et al., 2003; Yakovlev et al., 2007). Anyway, it seems to be

evident that there were different social milieus and different trajectories leading people into informal entrepreneurship.

Less investigated are (different) types and strategies of actors of informal entrepreneurship under transition, their shared norms and values, causes of sustainability of informal entrepreneurial practices.

Research objectives

The present paper aims:

- to discuss the specific set of socio-economic, socio-cultural, societal and institutional patterns and preconditions of informal entrepreneurship under transition in some transitional economies;
- to develop a typology of transitional countries from the point of view of different arrangements of formal vs. informal entrepreneurship;
- to figure out different groups of informally acting entrepreneurs according to motivation and level of engagement into informal entrepreneurship in some transitional economies.

Intensity and structure of entrepreneurial activity on transitional countries: GEM 2011 evidence

It is evident that the most sources of official statistics may hardly be used to make estimations of numerical data concerning the informal entrepreneurship. Moreover, there are no reliable alternative sources which could enable any cross-country comparison of this sector. The most relevant and reliable source to compare entrepreneurial activity of physical persons across countries, Global Entrepreneurship Monitor, exploring the entrepreneurial engagement of the adult population in several countries of the world since the late 1990ies, enables an access to the unique database to estimate the share of population engaged in any forms of entrepreneurial activity or quitting a business. Despite this it does not focus on questions of formality/informality, basing on this data at least very general estimations of the total entrepreneurial activity, motivation structure and human and social capital assets of entrepreneurs.

First, on the base of the GEM[1] data, it is possible to confirm that in most of the transitional countries the entrepreneurial engagement of adults is rather moderate or even low on each stage

[1] Since 1997, the GEM Research program (more detail in: Reynolds et al., 2005) has sought to address this by collecting relevant harmonized data on an annual basis. In 2011, the Global Entrepreneurship Monitor (GEM) conducted its 13th annual survey of the rate and profile of entrepreneurial activity around the globe. GEM interviewed over 140,000 adults (18-64 years of age) in 54 economies, spanning diverse geographies and a range of

of entrepreneurial activity (Table 1). Meanwhile, some authors insist on the thesis that informal entrepreneurship in transitional countries may rely on the fact that many adults during the systemic transition were been pushed into entrepreneurship. This thesis finds support only for some of them (Bosnia and Herzegovina, China), whereas in other transitional countries the necessity entrepreneurship in general does not exceed the average numbers for respective croups of countries.

Table 1: Entrepreneurial activity in 54 economies by phase of economic development, 2011

	Nascent entrepreneur-ship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Factor-driven economies							
Algeria	5.3	4.0	9.3	3.1	9.5	37	46
Bangladesh	7.1	7.1	12.8	11.6	2.5	27	50
Guatemala	11.8	9.1	19.3	2.5	3.8	33	33
Iran	10.8	3.9	14.5	11.2	6.4	53	32
Jamaica	9.0	5.0	13.7	5.1	12.7	33	40
Pakistan	7.5	1.7	9.1	4.1	1.6	47	25
Venezuela	13.1	2.6	15.4	1.6	3.2	29	43
average (unweighted)	9.2	4.8	13.4	5.6	5.7	37	38
Efficiency-driven economies							
Argentina	11.8	9.2	20.8	11.8	4.3	33	45
Barbados	10.8	1.8	12.6	4.2	5.5	5	58
Bosnia and Herzegovina	5.4	2.8	8.1	5.0	6.7	61	22
Brazil	4.1	11.0	14.9	12.2	3.8	31	45
Chile	14.6	9.6	23.7	7.0	6.8	27	54
China	10.1	14.2	24.0	12.7	5.3	41	29
Colombia	15.2	6.7	21.4	7.5	6.0	25	30
Croatia	5.3	2.1	7.3	4.2	3.6	35	31
Hungary	4.8	1.6	6.3	2.0	2.3	31	29
Latvia	6.8	5.3	11.9	5.7	3.0	26	46
Lithuania	6.4	5.0	11.3	6.3	2.9	28	47
Malaysia	2.5	2.5	4.9	5.2	2.6	10	72
Mexico	5.7	4.0	9.6	3.0	5.0	19	55
Panama	12.0	9.1	20.8	6.0	2.1	27	40
Peru	17.9	5.4	22.9	5.7	5.1	22	52
Poland	6.0	3.1	9.0	5.0	4.2	48	32
Romania	5.6	4.5	9.9	4.6	3.9	41	34
Russia	2.4	2.3	4.6	2.8	1.5	27	42
Slovakia	9.2	5.3	14.2	9.6	7.0	28	34
South Africa	5.2	4.0	9.1	2.3	5.6	35	39
Thailand	8.3	12.2	19.5	30.1	4.5	19	67
Trinidad & Tobago	13.9	9.3	22.7	6.9	3.9	15	44
Turkey	6.3	6.0	11.9	8.0	3.9	32	45
Uruguay	11.0	6.0	16.7	5.9	4.3	11	10
average (unweighted)	8.4	5.9	14.1	7.2	4.3	28	42

development levels. Based on this survey, GEM estimated that there were 388 million entrepreneurs actively engaged in starting and running new businesses in 2011. GEM focuses on three main objectives:

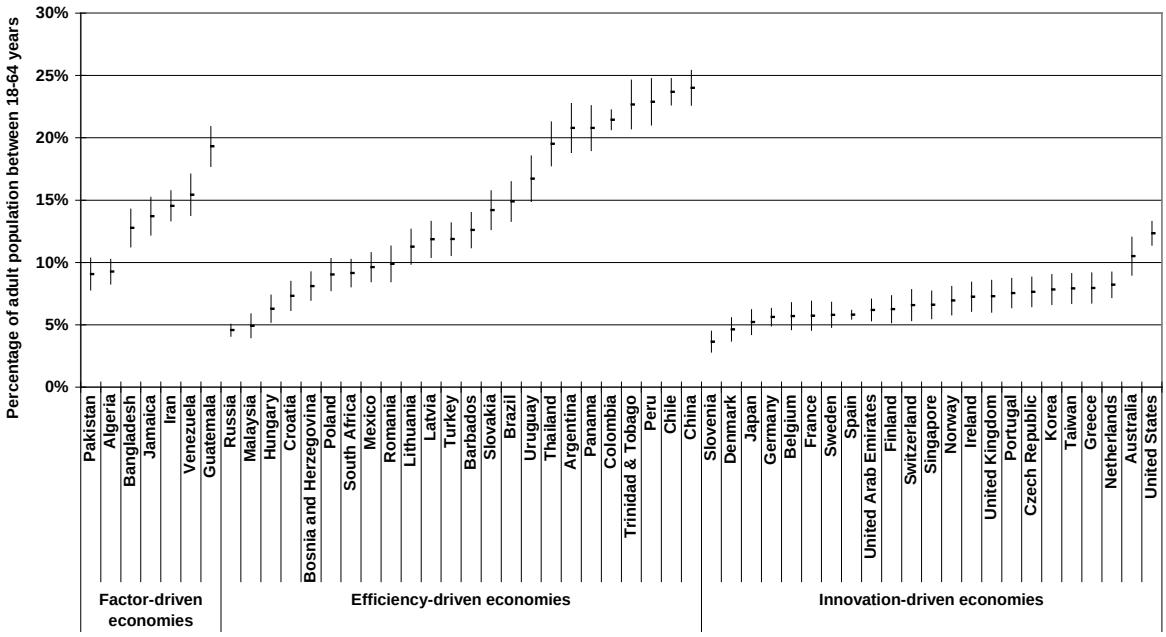
- To measure differences in the level of entrepreneurial activity among countries,
- To uncover factors determining national levels of entrepreneurial activity,
- To identify policies that may enhance national level of entrepreneurial activity.

Innovation-driven economies							
Australia	6.0	4.7	10.5	9.1	4.3	15	73
Belgium	2.7	3.0	5.7	6.8	1.4	10	72
Czech Republic	5.1	2.7	7.6	5.2	2.7	27	57
Denmark	3.1	1.6	4.6	4.9	2.3	7	64
Finland	3.0	3.3	6.3	8.8	2.0	18	59
France	4.1	1.7	5.7	2.4	2.2	15	71
Germany	3.4	2.4	5.6	5.6	1.8	19	55
Greece	4.4	3.7	8.0	15.8	3.0	25	37
Ireland	4.3	3.1	7.2	8.0	3.4	29	37
Japan	3.3	2.0	5.2	8.3	0.7	25	64
Korea Rep.	2.9	5.1	7.8	10.9	3.2	41	36
Netherlands	4.3	4.1	8.2	8.7	2.0	9	62
Norway	3.7	3.3	6.9	6.6	2.5	4	70
Portugal	4.6	3.0	7.5	5.7	2.9	18	58
Singapore	3.8	2.8	6.6	3.3	2.1	16	53
Slovenia	1.9	1.7	3.7	4.8	1.5	12	51
Spain	3.3	2.5	5.8	8.9	2.2	26	39
Sweden	3.5	2.3	5.8	7.0	3.2	6	68
Switzerland	3.7	2.9	6.6	10.1	2.9	11	61
Taiwan	3.6	4.4	7.9	6.3	4.9	17	50
United Arab Emirates	3.7	2.6	6.2	2.7	4.8	14	67
United Kingdom	4.7	2.6	7.3	7.2	2.0	17	46
United States	8.3	4.3	12.3	9.1	4.4	21	59
average (unweighted)	4.0	3.0	6.9	7.2	2.7	18	57

Source: GEM 2011 Adult Population Survey

Belonging to two different groups of countries, efficiency-driven and innovation-driven, most of them belong to those with the lowest level of entrepreneurial activity (TEA level, in terms of the Global Entrepreneurship Monitor – see Figure 1). Thus, also the informal entrepreneurship, forming a part of the TEA according to the GEM methodic, is forming a rather small group.

Figure 1: Total early-stage entrepreneurial activity (TEA) in 54 economies, by phase of economic development, 2011



Source: GEM 2011 Adult Population Survey.
Note: GEM groups the participating economies into three levels: factor-driven, efficiency-driven, and innovation-driven. These are based on the World Economic Forum's (WEF) Global Competitiveness Report, which identifies three phases of economic development based on GDP per capita and the share of exports comprising primary goods.

If we take the above GEM data for the transitional countries, we can conclude that in general:

- the level of early entrepreneurial activity is relatively low, below the average (with a few exceptions),
- the level of perceived opportunities and perceived capabilities to start-up is as a rule lower, whilst the level of fear of failure – higher than in the respective group of established market economies,
- the share of necessity-driven entrepreneurs who might be the 'natural' body of informal entrepreneurship – is hardly higher than among all countries belonging to each respective group (efficiency or innovation driven).

Main reasons to become and stay informal entrepreneur under transition. The role of unproductive entrepreneurship

Thus, the specifics of informal entrepreneurship under transition are related not so much with the quantity of informal entrepreneurs but with reasons to become and stay informal and strategies to survive and even to grow.

There are several reasons for informal entrepreneurial activity, according to the mainstream literature. Firstly, a lack of resources and credibility pushes some entrepreneurs into shadow economy where only informal activities are possible. Secondly, the state regulation level as well

as administrative burdens may lead to the same result. Thirdly, there are some 'avoidable markets' where informal activity only is possible. Fourthly, some freelance activities can be started only as a second job realized on informal manner.

However, we would add some additional reasons for the emergence, growth and sustainability of informal entrepreneurship in transitional economies such as Russia and most of the other former Soviet republics.

First, the common past, or the 'path dependency' from specific socio-cultural system, plays an important role. Among the specific features of it, the high power distance is first to mention: Russia belong the 10% of the most power distant societies in the world. (http://geert-hofstede.com/russia.html), which lead to a high distrust in State and its institutions – hence, to a low level of institutional trust (Raiser et al., 2003; Welter, 2005).

It was been seldom mentioned that in some bigger transitional countries – like Russia or Ukraine – the spatial factor is also important. The higher the distance from a bigger city the higher was traditionally the level of subsistence economy, coupled with neighborhoods' help based on reciprocal relations (when building a new house or repairing an apartment, a car or electronics, etc.). This tradition is deeply embedded, but the transition to market economy and changes in employment structure in small villages lead to a step by step transition of reciprocal relations into mutual servicing on paid basis. Informal entrepreneurship in rural areas finds its roots in this process – also because it is not evident for its participants that their traditional business needs any formalization.

This socio-cultural and spatial specifics support informal entrepreneurship – enhancing tolerance against tax evasion etc. and strengthening the habit of relying more on informal shared norms than on legal framework; even more – they weaken the general willingness to support the establishing and embedding of legal environment.

Second, there are also some reasons of informal entrepreneurship growth on the micro-level. A rapid impoverishment of population and the shock opening of internal market led to a massive influx of cheap mass consumption goods – no domestic producer at that time was able to compete with imported FMCG. Due to a lack of both knowledge and skills as well as of financial resources to establish a new private businesses able to compete with foreign sellers, on the one hand, and mass hidden unemployment (so called wage arrears etc.), on the other side, there were been many former blue collar workers who decided to establish a venture informally, while officially still working at a privatized or state owned enterprise (Earle and Sakova, 2000). Usually, they delivered services for households such as the repair of electronics, the renovation of apartments etc. The demand in such kind of services was mostly (1) hidden because many households used incomes from any unobserved economic activities and were not been inclined to

make any public offers, (2) circulated among local circles of natives and friends. In such a situation, informal entrepreneurship is the best and most successful provider of goods and services.

Third, is set of economic reasons – the conditions at least at the beginning of transition were favorable rather for informal than for formal entrepreneurship. High inflation in the beginning stage of market transition and the lack of liquidity lead to mass wage arrears, non-payments and barter as 'rational' forms of privatized firms' reaction on multiple market shocks. In fact, not one of them could survive without inventing and using different forms of informal entrepreneuring helping to minimize the taxation and to overcome the lack of liquidity – by payment arrears etc.

Fourth, to function perfectly in formal economy, entrepreneurs theoretically need a well-established network of institutions, including independent courts, efficient enforcement system etc. Indeed, 'entrepreneurial entry in a sophisticated, high income economy is more dependent on quality of institutions than in a poor country' (Aidis et. al., 2010, p. 21). In a poor country formal institutions are largely substituted by personal trust and other informal norms and values (Raiser et al., 2003; Rehn and Taalas, 2004; Puffer et al., 2010).

Furthermore, informal entrepreneurship is somehow 'additional' to the role and state of formal entrepreneurship. The latter, in Russia and some other post-Soviet states, being established in a process of rapid mass privatization (Boycko et al., 1995; cf. Spicer et al., 2000), on the one side, and formalization of late Soviet semi-criminal entrepreneurship (Peng and Shekshnia, 2001), on the other side, is characterized by a combination of genuine entrepreneurship and 'proprietorship' (Scase, 1997), by dominant role of rather political than innovative rent seeking, as well as by a mix of formal and informal practices in everyday business behavior of any legally acting firms.

As Scase stressed, an important distinction among economic actors under transition is one between entrepreneurship and proprietorship, based on the 'contrasting psychologies of business founders; their attitudes towards trading; and their orientation towards capital accumulation' (Scase, 2003, p.67). As he mentioned, entrepreneurship implies a person's commitment to accumulate capital for purposes of business growth, whilst proprietorship is a (semi-feudal) ownership of property and other assets used to realize quick profits, but which are not utilized for longer term purposes of capital accumulation. Any surpluses generated by proprietors are likely to be consumed rather than reinvested for business purposes. This group of proprietors consist of former 'red directors' who used the privatization to maximize own income for private consumption as well as of those state bureaucrats acting as 'political entrepreneurs' to use administrative power for individual enrichment. These two groups formed a demand in services

and goods which only partly – from moral and taxation reasons - could be articulated in the formal economy. The suppliers of this demand were merely informal entrepreneurs.

Second, the mass privatization in early – mid 1990s led to a situation when a usage of connections with state bureaucrats supported a very rational political rent seeking which became – at least n med-term perspective – more efficient way of economic activity than classical entrepreneurship. That is why the 'unproductive and even destructive entrepreneurship' (to use Baumol's words – Baumol, 1990) became wide spread.

In our view, despite Baumol didn't argue it clearly, the distinction between these three types of entrepreneuring are as follows. Productive entrepreneurship is a type of activity based on product and/or technology innovations, whilst unproductive entrepreneurship is mostly using administrative and political tools to gain benefits from a legal appropriation of public goods etc. (more or less close to what Scase is meaning under 'proprietorship' etc.). It might be in line with formal rules and legal, however, the basis of such kind of entrepreneurial activity is a simple redistribution of already existing assets. Destructive entrepreneurship is, again, another type – related with criminal or semi-criminal practices of violent entrepreneurship (Volkov), 'black' M&A, money laundering, etc.

Another important issue: the three types of entrepreneurship are generally ideal types, in fact, usually business practices 'consist' of a mix of all of them. This is especially true for some transitional environments, where to be efficient in business, one should have useful connections – to have access to privatized property etc. On the other hand, semi-legal character of some privatization deals in 1990es and violent M&A practices in 2000es enforced the newcomers to embrace the main formally led business with a cluster of at least partly informal entities (information services, 'money laundering' one-day firms to accumulate investment resources etc.). Some informal entrepreneurs belong to chains of such businesses. But also another type of informal entrepreneurship occurred – as a consequence of a strategy of some owners of new ventures to avoid any contact with formal business as an area of communication with 'political' entrepreneurs (using their contacts with authorities for political rent-seeking) and their 'roofs' in police, courts etc. Anyway, the state and functions of both stratums of informal entrepreneurship in such context is dependent from the dominant role of unproductive entrepreneurship in economy.

Hence, from our point of view, it is important to distinguish between countries with leading role of productive entrepreneurship where informal entrepreneurship is a natural invention to obey lack of initial resources or hard entry competition to become formalized later, and countries with dominant position of unproductive entrepreneurship where the nature of the 'push' to become informal entrepreneur is different.

Different trajectories of transition: specifics of informal entrepreneurship in CIS

In spite of big similarities, at least since the middle of the 1990s some important distinctions between big groups of transitional countries occurred. At the moment, in the literature these groups are distinguished merely geographically (CEE vs. CIS) or politically (new EU members and aspirants vs. non-EU members). However, it seems that there are some more criteria which enable to differentiate them – with consequences for understanding of entrepreneurship development (Obraztsova and Chepurenko, 2010; Chepurenko et al., 2011).

In Table 3, we refer on the World Economic Forum invented distinction between different types of contemporary economies and use it's clustering of transitional countries where only two of them being members of the GEM project belong to the innovation-driven economies and most others – still to the efficiency-driven ones. Furthermore, we estimate the level of state (=bureaucratic) interference into the economic process, according to 'Doing business' and some other reliable expert estimations to differentiate all transitional countries of Europe (Smallbone and Welter, 2009; Batjargal, 2010; Handbook, 2011).

Table 3: Characteristics of dominant entrepreneurship types under transition in different environments

		Impact of 'political entrepreneurship'	
Type of economic development		low	high
	Efficiency driven	Productive entrepreneurship. Informal entrepreneurship as a form to avoid competition with stronger (mostly foreign) players (Examples: Baltic states, Croatia, Hungary, Poland, Slovakia)	Unproductive entrepreneurship. Informal entrepreneurship to avoid excessive regulation or to gain benefits from dealing with 'political entrepreneurs' (Examples: Belorussia, Russia, Ukraine)
	Innovation driven	Productive entrepreneurship. Informal entrepreneurship a temporary form of transition from start-up to new business stage (Examples: Czech Republic, Slovenia)	

What we would like to stress referring to the Table 3: first, innovation driven economies are characterised by a very low or even absent role of 'political entrepreneurship' – big State owned

holdings playing a key role in economic process etc., hence informal entrepreneurship is a mainly a reaction on natural market entry barriers and scarcity of resources at the start-up stage. Second, in efficiency-driven economies with a low role of 'political entrepreneurship' informal entrepreneurship is mostly a result of competition between domestic bottom-up entrepreneurship and foreign big and strong competitors from the older European market economies.

Third, a different cluster is represented by former Soviet republics like Belorussia, Russia and Ukraine. Here, the strong hierarchical structure of economy, critically dependent from the behaviour of State owned corporations and informal incentives, sent by the State to the private business, informal entrepreneurship is a form of a negative or positive reaction on the dominant role of this (unproductive) 'political entrepreneurship' dominance in the economy.

With regards to Russia and its closest neighbours, contrary to most Baltic and Eastern European countries where market conform norms and values – as well as actors with some inherited stereotypes of economic behaviour - did not fully disappear during the Soviet era, and/or were rapidly imported and embedded from the older EU states (in the former GDR – overnight), lack of formal market institutions (on this, see Smallbone and Welter, 2001; Ovaska and Sobel, 2005; Aidis et al., 2008; Smallbone and Welter, 2009; Aidis et al., 2010; Puffer et al., 2010) and the social anomia formed a fragile environment where 'old-fashioned' Soviet networks (Ledeneva A.V., 1998) matter – again, strengthening the informal networking and informal entrepreneurship, being less dependent from the quality of (formal) institutions. Moreover, a high level of distrust in formal institutions enabled a legitimation to any form of tax avoiding, informally entrepreneuring based in personal trust embedded relations, such as *blat* or *guanxi* (e.g. Batjargal, 2006, 2010; Ledeneva, 1998; Manolova and Yan, 2002; Puffer et al., 2010; Raiser et al., 2003; Smallbone and Welter, 2009; Tan et al., 2009; Tonoyan, 2010).

Under such conditions, informal entrepreneurship is rather a form of rational compromise than of avoidance and deviance (Oliver, 1991). As Djankov et al. (2004, p.7) mentioned, in Russia 'many entrepreneurs are immersed in business environments where there frequently is corruption and have come to accept it as a part of doing business'. Anyway, under such conditions informal entrepreneurship often plays a role of intermediary between formal and black economic activity.

In the first years of transition, when the State was weak and the structural tensions in the economy – socially very dangerous, informal entrepreneurship was tolerated. But, since the State began to consolidate (in Russia - at the beginning of the 20th century), it strengthened also the enforcement mechanisms to formalize entrepreneurial practices, another problem occurred – so called vicious circles where entrepreneurs rely primarily on trusted and successful avoidance' behavior, which in turn reinforces negative attitudes of governments towards entrepreneurship thus, impeding institutional reforms and the development of institutional trust (Welter, 2005).

A major underestimated factor of widening of informal entrepreneurship especially in Russia is a big wave of migration from some former Soviet republics. The inflow of migrants to Russia in 20th century made it one of the three states with highest number of immigrants. The majority of migrants from Central Asian countries provide cheap labor, whilst some representatives of Caucasian states, owing human and social capital, usually establish their own ventures – being mostly informal entrepreneurial firms in construction, repair and related fields across Moscow, St. Petersburg and some other bigger cities. On the other hand, there Chinese and Vietnamese merchants, establishing trade or confectionary firms without any registration, acting in suburbs of Russian metropolis on a very informal manner. The reasons of emergence of ethnical entrepreneurship as well as of its informal and even illegal character are well-known (Alrdich and Waldinger, 1990).

Types of informal entrepreneurship in transitional countries

It seems, logical therefore, that – as far as the reasons to become an informally acting entrepreneur are of multiple and diverse in nature – there should be also different forms and strategies of informal entrepreneurship under transition. Sure, especially during the first years of transition or in then poorest CIS countries informal entrepreneurship was the natural form of entrepreneuring among big groups of population being pushed to become self-employed, like so called shuttle traders, chelnoki, in Russia in early-mid 1990 etc. (see Eder et al., 2003; Yakovlev et al., 2007). But, on the other side, some forms of informal activity – and groups on entrepreneurs – are choosing this strategy on a very rational manner and from different reasons: to (partly) escape from taxation using connections and 'roofs' among authorities to do business while not being registered, etc. To do so, they need to have sufficient resources and have wide networks of subcontractors and/or clients. Sometimes, both types of entrepreneurs cooperate – like shuttles who step-by-step became subcontractors of grey or shadow merchants using them as merchandisers and avoiding some taxes while shuttles remained semi-independent self-employees, etc. Any differentiations of informal entrepreneurial activity in Russia and other former Soviet republics – according to gender (Williams and Round, 2007; Welter and Smallbone, 2010), role of ethnicity (Mitchell and Co, 2004) etc.

We assume that to build a typology of informal entrepreneurs in transitional environments, at least two factors are important: structure of motivation (opportunity vs. necessity driven) and the level of informality. Taking both as axes of a clusters' formation, we may realize following ideal types of entrepreneurs in transitional environments by level of formalization (Table 3). Sure, there are some ideal types – because in real life business led mostly formally may use some

informal practices, too. That it is the case we show on the example of a 'star' entrepreneur described below.

Table 4: Types of entrepreneurship under transition, by level of formalization

	Mostly formally acting	Mostly informally acting
Mostly necessity driven	'Fools'	'Marginals' or 'outsiders'
Mostly opportunity driven	'Stars'	'Cynics'

We imply that – taking into consideration the institutional context – in Russia and similar transitional countries 'cynics' would have their fully rational reasons to remain in the informal economy to be efficient and to have a solid habitus – contrary to informal entrepreneurs in established market economies who often suffers from social exclusion and lack of social recognition.

As the 'fools' are acting formally, we omit this group in a small collection of cases gathered in Russia and Ukraine between 2007 and 2012 which will be described below.

Main types of informal entrepreneurs under transition: case studies

The main quantitative work was completed between 2007 – 2009 in both Moscow and Kyiv. As part of a larger survey on the nature of informal work in Russia and Ukraine over 900 households were surveyed to ascertain their level of informal activity and its importance to their household's budget. The survey was spatially stratified. As in Moscow and Kyiv there are not readily distinguishable 'rich' or 'poor' areas were chosen at random within the city (obviously 'elite' areas are noticeable and research was not conducted there. In these areas apartment blocks were chosen and every 20th household was approached for interview. If there was no response and/or the interviewer was refused an interview, then the 21st household was visited, then the 19th, 22nd, 18th and so on. This provided a spatially stratified sample of each area.

For the interview a relatively structured interview schedule was developed and was conducted face to face. Firstly, information was taken on the household's background with regards to the age, gender, employment status and work history as well as the gross household income, and if any household member had started-up a business venture in the previous 36 months. Secondly, and taking a sensitive approach to discussing participation in informal work, questions were the asked about the type of labour the household last used to complete a range of common domestic tasks followed by questions on whether they had conducted any of these tasks for other

households and if so, whether they had been paid or not, and whether they had been paid 'cash-in-hand'. Third and finally, a range of open-ended questions were then asked on off-the-books work concerning its nature, including for those who had started-up a business venture in the past 36 months, whether their transactions has been wholly or partly conducted on an off-the-books basis and their reasons for operating on an off-the-books basis. Within this group over 400 households were identified as taking part in some form of entrepreneurial behavior. From this group around 30 in-depth interviews were conducted. In 2011–2012 interviews were conducted with young entrepreneurs in Moscow's new creative industries. The baulk of the discussions below is based on the former project as the latter is still work in progress but it does provide one of the case study examples.

This section is structured as follows; it firstly examines some of the motivations behind why people take up entrepreneurial behavior in transition economies, but also making the very important point that these can change over time. It then looks at some of the key issues that are generic to almost all of the interviewees in their attempts to develop successful enterprises. Little division is made in these sections between Moscow and Kyiv as the responses were very similar. The final section presents cases of informal entrepreneurs – the 'marginals' and 'cynics' -and explains why even the 'stars' are sometimes committed to act informally.

Of those surveyed who undertake entrepreneurial behavior very few said that they did so on a wholly formal basis, i.e. they were fully registered, paid all of the due taxes, their employees were all formally registered and their salaries were completely declared. Even within this group though there is a certain ambiguity as often, when interviewed in more depth they discussed how they still had to pay informal payments to obtain contracts and licenses and interactions with the tax authorities were often fraught. So, as we mentioned earlier, even mostly formally run business is impossible without some informal transactions etc. Far more common, more than a third of the respondents, were entrepreneurs whose enterprises were registered with the authorities, and the correct licenses held, but who operations were a mixture of both formal and informal. This means that they paid some tax and often had registered employees but some of their activities were conducted 'off the books' where no tax was paid. The reasons for doing this are multiple and complex. Firstly, many discussed how the tax burden was very high, especially pay role taxes. Thus for new businesses there was a feeling that it was better to 'try things out' before committing to formalization. This was especially true in regards to hiring new employees. Some discussed how they did not wish to reveal the true scale of their operations, as they were afraid that state actors would demand increasingly higher informal payments from them. These can take the form of outright demands for bribes, demanding money to register new employees or aggressive tax reviews. Furthermore, if appearing successful there was a fear that they might

attract the attention of criminal groups or even receive pressure from new rival enterprises. Thus there was a general feeling that although they wished to be formal it was safer to act in part informally and appear to be a smaller operation than in reality. There is a perpetually to this as because suppliers and clients often wish to be informal, see below as well, often contracts and payments are offered and received in an informal manner. Therefore, it can be difficult, interviewees discussed, to become more formal even if there is desire to do so.

Nearly a half of entrepreneurial interviewees act in a wholly informal manner. Such actions are motivated by a mixture of the rationales given for the two previous groups but stark here is the feeling that the bureaucracy involved in registering their actions is not worth the trouble. As discussed above the costs 'of doing business' formally is, according to the World Bank, very high in both Russia and Ukraine. This is compounded in larger cities with Moscow ranked as the most difficult city to start a business in out of 30 Russian cities surveyed (World Bank, 2012). In Moscow to register a business requires 11 interactions with the state, which should take approximately 30 days (ibid.). Few believe that it would take only the alleged time to complete the processes:

> 'I have never thought about getting a license because it is a very complicated bureaucratic process. I just do not have time and the nerve to stand in lines for days and weeks. It is amazing; if the state wants taxes why does it not organize things so that all the procedures to get a license go quickly and without bribes? I have the impression that if a person wants to pay taxes out of his/her off-the-books income in this country, they have to be obsessed by this idea and fight for their rights to do it with the state itself.'

Furthermore, there is the perception that the majority of these will involve informal payments to obtain the correct paper work and that the more interactions there are with the state the higher the possibilities are of been asked to make informal payments in the future. The views of this interviewee were commonplace:

> 'I wanted to try and start a formal business but I was asked to pay so many bribes and in the end I just gave up. If there are so many payments to be made in just setting up a business how many would I have to pay in the future...'

As cultures of informality develop they have a causal effect as people assume that they will have to make informal payments and thus make no attempt to engage meaningfully with the state (see Round et al, 2010 for further discussion). The fact that almost all areas of Russian society have informal elements reinforces these perceptions. Only 10 percent of all respondents (i.e. not just those operating entrepreneurially) state that all of the practices are formal (see Williams and Round, 2010). Many interviewees discussed how often their formal salaries are 'paid in an

envelope' with no tax paid on it. Thus many people see their everyday as at least partially informal and, therefore, relatively insecure.

Therefore, a 'circle of informality' can be seen to be in operation, which also includes subsistence economies in villages and small towns and households services provided informally, sees a significant amount of informal incomes which may be realized in buying informally produced and distributed goods.

The low average income of Russian households also stymies formal entrepreneurship development as it reduces the level of economic demand from the population and their ability to pay for services. As the costs of formalisation (through the paying for permits and informal payments) increases the transaction costs then it is in the interest of the entrepreneur to remain informal and at a small scale. There is no point in trying to compete with larger scale firms or with foreign firms because of this, which helps explain why so many Russian enterprises are small scale and involved in the service provision sector

As is common across the world there is also a feeling that during the initial 'testing' stages of the entrepreneurial idea there is little point in registering the business in case it does not work out. What, to some extent, differentiates the experience in transition economies is often that entrepreneurship takes place alongside salaried employment for a longer period. This is because low salaries means that it is difficult for people to save enough money to endure a period of non-payment during the initial stages of the enterprise and the risks are simply too great to leave employment. Furthermore, in many cases the formal employment enables the informal entrepreneurial activity through the provision of equipment, clients, information and/or protection (this will be discussed further in the 'cynics' case study).

The motives of entrepreneuring informally in Russia and Ukraine

Despite the above problems there is still a strong desire to undertake entrepreneurial activity in Russia and Ukraine with approximately 45 % of all of the survey respondents undertaking some form of it. People were asked why they undertook such activities and as Table 5 shows the overwhelming motivation, almost 90 % was to generate further income for the household.

Table 5: Why did you decide to start up your informal enterprise?

Motive	%
To generate sufficient income to live/survive	55
To generate additional income	34
Desire to have own business	4
To fill a gap in the market	2

Independence	3
Other	2
Total	100

Source: Russia and Ukraine household survey (2008) conducted by John Round

As Table 5 shows over half felt they had to be entrepreneurial as there salaries, and/or social benefits, did not provide enough income of a satisfactory standard of living. While many said their salaried employment provided just enough to provide an extremely basic standard of living there was not enough to buy clothes or to visit a café, for example, on rare occasions. Many people stated that after paying housing, utility and food bills, they had very little money left. As one respondent explained:

> 'I'm an engineer and I have done this job for a long time. I wish that the wage could correspond more to the cost of living because 600-700 grn [circa US$140 per month] is simply not enough to live on… It is just about enough to feed my family but I need more to clothe it. My wage does not correspond to the work we do. I wish it could be bigger but it is not so I have to spend most of my free time working on my own account 'off-the-books'.'

However, as Table 6 highlights when delving deeper into their motivations money was not the only consideration as only 13 % said they started their enterprise purely out of economic need. The majority, 80 %, said that there was a mixture of 'push' and 'pull' motivations. Within this 56 % suggested that they acted mainly out of economic need but they had also seen some opportunities such as the wish for 'less dependence on employers', 'greater control of their lives' or that they had seen a 'gap in the market. The remainder of this group, 24 %, put such 'pull' motivations above the 'push' reasons.

Table 6: Motivations cited by informal entrepreneurs

Motive	%
Solely necessity	13
Mostly necessity but also opportunity	56
Mostly opportunity but also necessity	24
Solely opportunity	7

Source: Russia and Ukraine household survey (2008) conducted by John Round

Such motivations also change over time, as Table 7 demonstrates, with 47 % respondents stating that over time they have become more opportunity driven. This shows that as their enterprises mature then they see that issues such as control over their own economic fortune become more important.

Table 7: Do off-the-books entrepreneurs' motives change over time?

Motives	%
Motives unchanged	43
From necessity-orientated to opportunity-orientated	47
From opportunity-orientated to necessity-orientated	10

Source: Russia and Ukraine household survey (2008) conducted by John Round

After demonstrating the barriers and motivations of entrepreneurs in Russia and Ukraine the paper now turns to look at brief case studies of the differing types of entrepreneurs that can be observed in these countries.

The 'marginals', or 'outsiders'

Entrepreneurs within this category are those operating mainly outside of the formal economy and are necessity driven, as in they wish to act in such a way to bolster their household rather than seeing an opportunity in the market. These tend to be small firms with few full time employees with labor added casually when it is needed. They are described as marginal as they are both outside the formal system and often their endeavors still only provide a relatively modest income. Two case studies will be presented here, the first a small food supplier in Kyiv and the second a construction firm run by Chechen migrants in the borderlands of Moscow city.

The food supplier from Kyiv is a classic needs driven entrepreneur. She was employed as an accountant in a relatively senior position within the local authority but the pay was very low. Due to family issues she was put in a position where she had to support her son's young family and her formal salary simply did not provide enough income. She discussed how she was well known in the office for brining to work home cooked food for people to share and she decided to monetarise this practice. It was very successful as there were few cheap places to eat around the office and soon she was earning more from providing food from her formal salary. She expanded upon by supplying nearby shop workers and a school and eventually she decided to quit her job. From her good relations with her bosses she gained contacts in other offices and the enterprise expanded relatively rapidly.

At no point did she consider registering the business as she 'did not see the point for something on such a small scale' and also because of her distrust of the state. She has to devote a lot of time to the enterprise in order to maximize profits and often she buys food from informal market traders (who import food products informally from Central Asia). The majority of the cooking is done at her home (she has spent money expanding the kitchen) but as the business expanded she used the capacity of her neighbors who then became drawn into the business. At times of peak

demand, or when she caters for a wedding or birthday part, she has a wide contact network who she employs informally on a casual basis. Further to this she has a range of professional drivers (such as taxi drivers or chauffeurs) who supplement their income by informally delivering the food for her. All of this is conducted with no tax payments and on the occasions she has encountered difficulties with the state she has turned to contacts from her previous employment for support.

In a more mature economy such an entrepreneur would probably open their own café or develop into a larger catering business but in this case the barriers to such growth are seen as too problematic. As with the following case study of 'the cynic' she is clearly a talented entrepreneur so the country is not just losing her tax revenue but potential wider contributions to society as well.

The Chechen migrants case is about a group of construction workers who work just outside of Moscow's city borders is a revealing one as it shows the depth of informal activity and how it is spatially linked across networks. Furthermore, it shows the boundaries to formal work from ethnical migrants within the *same* country.

The research revealed the activities by chance; from interviewing an old woman about her coping practices there was some confusion about how her house was in so much better condition than her neighbours, given that her declared income was so low. Over a number of interviews she began to trust us and she revealed that every summer she rents out rooms in her house to Chechen migrants who come to work in the region. Though interviewing the lead worker it was possible to ascertain their entrepreneurial activities. Originally an owner of a construction firm in Grozny, the capital of Chechnya, his firm had not benefited from the rebuilding of the city as he had not go the connections needed to obtain the government contracts. Therefore, to ensure his family had enough money to survive the winter months he began to look for work in the Moscow region.

Through working as a building manager on the construction sites of summer homes for rich 'new-Russians' he developed enough contacts to set up his own informal enterprise that is able to complete all of the building stages to the full completion of the houses. Working for him are other migrants who specialise, for example, in plumbing, electricity and construction. The work is totally informal. The company is not registered and building materials are paid for in cash as are salaries.

The interviewee discussed that they work outside of Moscow's city limits as it is too difficult for them to work within the city as they do not have the correct paperwork. There is the perception that they would be regularly stopped by the police for paperwork checks and bribes would have to be paid to 'smooth out the situation'. As there are fewer police in the rural regions outside of

Moscow they make an ‘annual payment’ to the police chief ‘for protection’ and they feel relatively safe in the area.

Given that the houses they are working on run into the high hundreds of thousands Euros in value, if not millions, he clearly oversees a very talented team of workers who under more market friendly conditions would form a successful formal building enterprise. Wishing to maximise the profit they can remit to Chechnya they wish for their outgoings to be as low as possible. Therefore, at the woman’s house they pay only a nominal rent but instead they make repairs to her house, which is why it is in such a good condition. To do this they use building materials they steal from the houses they are working on. Furthermore, they help the woman grow fruit and vegetables in her garden and when they are ready the help harvest them and drive her to the market on the way to the building site. By selling the produce, which she would not be able to grow herself, the woman makes enough money to survive over the winter. This is, of course, all sold informally in markets where she knows the owners well enough to be allowed to sell without paying for licenses or a market stand. Obviously, the local police are aware that the workers are staying in her house and she makes a small cash payment to them to ensure there are no difficulties. She says she knows them well and they ‘know what I am doing I need to do to survive’ and they give her little trouble. We were also told that the school gymnasium is converted to informal lodgings for migrant workers during the summer months when there are no classes. Therefore, we can see that in this region there are wide networks that rely on the informal entrepreneurial actions of the migrant workers.

‘The cynics’

This group is made up of those that have seen an opportunity within the market and are exploiting it while operating mainly in an informal manner. One of the best examples of such an operation from the research was a building firm in Kyiv. The owner started the business to earn extra income in 2001 and described himself as initially a necessity driven entrepreneur as his wages, from a construction firm were paid on an irregular basis. Using company time and equipment he began a firm, with four or five colleagues working for him, installing modern windows in Soviet era flats and conducting general repairs. However, he soon so an opportunity for building summer houses on land outside of the city and this became the main focus of the business. Given his obvious material wealth, German car and expensive watch, it is clear that this is a successful business. He discussed how initially they found work through word of mouth rather than through advertising as the market is so crowded with such firms. Then as the

business developed the firm's reputation for good quality work spread people were approaching him. The business is virtually wholly informal. He discussed how when he initially started up he did not want to engage with the relevant authorities as he had seen the difficulties his bosses had encountered at his formal work. There was also the element of uncertainty about how much money he would earn and thus the effort and capital required to become formal was not justifiable.

His main justification for not paying taxes on his profits is that it is 'an unequal game, because if you pay they just want more and more'. Almost all of the production chain is informal from suppliers to casual hired labor so he does not see why he should be formal operator in 'a sea of informality'. As he is obviously making money he has to pay some informal payments to local officials to ensure that he does not get into difficulty with the tax police. The firm, he believes, is an optimal size and it would be difficult to develop it further as it would require obtaining credit from the banking system. This would be impossible as firstly he does not have any formal accounts to show the bank his income and secondly there is a reluctance, he believes, for banks to lend to small businesses. This means that the business stays local to its region and will not take on many more workers. Therefore, the state is not only losing tax revenue but also the entrepreneurial ability of the interviewee as he is clearly a talented businessman. The term 'cynic' fits this interviewee perfectly as his sole intention is to enough money to be able to leave Ukraine and to 'retire' to run a small business in the Caribbean. He firmly believes that because of the high levels of corruption in Ukraine there is no chance for 'the ordinary man' to succeed over a long period of time, hence his aim to accumulate as much money as possible and leave as soon as he can.

'The stars': even they are enforced to informal practice

The case study for this category is a young clothing firm based in Moscow. This business consists of enterprises that were created to exploit and opportunity and who are operating mainly within the formal sector. Formed in 2009 by a group of graduates with a range of background from design to management this business sells their own design of clothes online. Although the founding of the company was mainly opportunity driven there were some push factors as its managers were frustrated by the lack of opportunities within the formal market sector upon graduation. They felt that the best jobs were not going to the most talented but to those with the best connections. Although they all found employment is was not particularly satisfying and they felt little job security. As the firm is concerned with fashion it is very important that it is as visible as possible so, as they say, 'there was no way we could just stay in the shadows', and thus

an early decision was made to operate formally. Their timing was good as new creative spaces were opening across Moscow, such as Winzavod and Strelka, and there is a desire within the city government to foster a 'creative economy'. Therefore, they feel that the government was very supportive of their attempts to formalise and they encountered little problems during the registration processes. There were few demands for informal payments but this could be because of the firms creative origins as there was little start up capital involved (the main inputs here were design based, for both the clothes and the website, rather than capital).

It is impossible, however, for them to operate fully in the formal sphere. Often suppliers want to be paid 'off the books' and there are similar issues with distribution. The main problem is though with labour. Given the high pay roll tax and complex registration process for new workers the firm often have to take on casual part time workers (when demand is high) on an informal basis and they are not yet big enough to support formalising these workers on a full time basis if their labour is not fully needed continually.

One of the firm's key objectives is to internationalise their brand and this is an area where they have encountered problems with the state as on occasion informal payments are required to ensure that goods are allowed to leave the country in a timely manner. Also the state postal system is, they argue, 'not fit for purpose' so they are forced to use more expensive international delivery companies. The director feels the firm is at a crucial juncture and the state's lack of support for small businesses may cause them real difficulties. They wish to open a shop to showcase their designs but rents in Moscow are prohibitively expensive and it is no state support in this sphere. They compared the situation in the Netherlands where small design business are offered subsidised rents in some areas to encourage creative clusters.

Furthermore, even though they are formal, as opposed to 'the cynic', it is still very hard for them to raise credit. They were able to draw on family on friends for capital during their incubation period but this is not viable for more larger scale expansion. This is a very driven group of entrepreneurs who wish to make a success of their firm in Russia but they have a worry that it might not be possible to fully realise their ambitions due to its business environment.

Is there any wish to formalise?

This is not to say that entrepreneurs do not wish to formalise their operations. The most common problem cited by interviewees was that acting informally made it almost impossible to obtain credit through the banking system. Thus they were often unable to fund expansion or to protect themselves during periods of low incomes. To expand, or to survive, interviewees had to

turn to family or social networks but for the vast majority there was a relatively small limit to what this form of fund raising could achieve.

Furthermore, informality does not hide entrepreneurs totally from rent seeking officials and it makes them vulnerable to attack as because they do not pay tax, and are thus operating illegally, they thus do not have legal recourse if they are cheated or payments are not made. As one interviewee discussed:

> 'I just wish things could be more secure. It is so tiring not knowing what the future will bring. If we could formalise like they do in the west it would make everything easier and we could concentrate on running the business rather than worrying about what tomorrow will bring.'

Amongst interviewees who were considering starting an enterprise this continual insecurity was the most commonly discussed reason why they were reticent to actually start.

Conclusions

Informal entrepreneurial activity is an inevitable part of every new venture. However, in some environments there are not only the constraints of start-up stage but some additional incentives to become and remain informally.

In this paper, we focused on different reasons of doing business informally in transitional countries, explaining them on the base of some cases from Russia and Ukraine.

Furthermore, it was shown that high levels of informality contained within the sector are resulting from the character of socio-economic model. Thus, in a more concrete formulation, the nature and strategies of informal entrepreneurship are dependent from the impact of 'political entrepreneurship', which, in turn, affects the structure of entrepreneurship – whether it is a 'productive' or 'unproductive' entrepreneurship, in Baumol's sense, dominating.

Moreover, we tried to develop a new approach to cluster transitional countries, using not only political or economic criteria, but also the dominant type of entrepreneurship and main reasons of informal entrepreneurial activity. From this point of view, three different groups of transitional countries were been identified.

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