



Issues and Challenges on the Productivity Performance of the Informal Sector in Selected APO Members

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ISSUES AND CHALLENGES ON THE PRODUCTIVITY PERFORMANCE OF THE INFORMAL SECTOR IN SELECTED APO MEMBERS

**ISSUES AND CHALLENGES ON THE PRODUCTIVITY PERFORMANCE OF
THE INFORMAL SECTOR IN SELECTED APO MEMBERS**

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FOREWORD

The informal sector comprises a sizeable percentage of the workforce, especially in the developing economies. However, many of the informal enterprises do not have access to adequate capital, technology, raw materials, and marketing, which are perennial issues and challenges that hinder their growth. Suffice to say, an endemic problem associated with many of the informal sector enterprises is that they are usually engaged in the production of low-quality products and services, thus getting stuck in a vicious circle. For an informal enterprise to survive and grow in the long run, product innovation and process innovation have become more urgent and crucial.

The APO has a strong interest in promoting the informal sector as part of inclusive and broad-based productivity enhancement interventions under the APO Vision 2025. This study therefore explores the idea that in order to raise productivity, there is a strong need to first identify the major constraints that the informal sector enterprises faced. This would eventually help strategize initiatives, especially from the public policymaking and program point of view.

There were 10 APO members that participated in this study, with designated national experts from Bangladesh, Cambodia, Fiji, India, Mongolia, Pakistan, the Philippines, Thailand, Türkiye, and Vietnam. Dr. Arup Mitra, from the South Asian University, India, was assigned as the Chief Expert, who provided the overall guidance and direction of the study. The key objectives of the study are to analyze existing productivity challenges and issues in the informal sector in APO members and formulate strategies for overall productivity enhancement pertaining to the informal sector. The COVID-19 situation had further prompted the need to reexamine issues, affecting the informal sector so that appropriate assistance can be extended for its postpandemic revival. As a whole, this publication provides a wide range of policy insights in addressing the situational differences and the heterogeneity involved within this sector. The analysis and findings of the study may also support in strategizing the ongoing interventions since many of the livelihood opportunities have been shattered ever since the pandemic hit almost all economies.

I wish to extend my thanks and appreciation to all experts involved in this great work for their valuable contributions in making different stakeholders understand better the value, roles, and potentials of the informal sector in the productivity growth at the national level.

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INFORMALITY, PRODUCTIVITY, AND EARNINGS: AN INTRODUCTORY NOTE

SETTING THE PERSPECTIVE

The informal sector comprises a sizeable percentage of the workforce, especially in developing economies. Even if agriculture is excluded, which largely falls under the informal sector, nonagricultural activities reveal a significant proliferation of the informal sector. Further, within the formal sector, informalization processes are in place, resulting in an overwhelming proportion of labor being employed in informal capacity. In other words, informal employment encompasses both the informal sector employment and the informal employment within the formal sector, making it a significantly larger category.

Though parts of the informal sector have been growing due to demand, a wide range of low productivity activities exists within the informal sector, indicating its significant overlaps with poverty and slum dwelling. A close link has been established between rural-urban migration and urban informal sector employment, suggesting a transfer of rural poverty to the urban space. Moreover, many workers have been residing in urban areas for more than a decade, and they remain persistently engaged in the informal sector work. The possibility of transitioning to the formal sector after acquiring experience in the informal sector is rather bleak. Hence, a significant excess of labor supply exists in many of the activities and many of the workers continue to work within the informal sector throughout their working life with meagre earnings. Though some of the jobs within the informal sector help reduce poverty, the recent COVID-19 pandemic has severely affected this poverty reduction processes. The importance of public provisioning of work opportunities in the urban context must be conciliated at the policy circles.

Specific segments within the informal sector are strongly linked to the formal sector through ancillarization, business subcontracting, and a great deal of complementary activities. However, a significant number of the informal enterprises lack access to adequate capital, technology, raw materials, and marketing. This creates possibilities for exploitation, especially through the intermediaries and contractors, which is rampant, and hampers workers and enterprises toward upward mobility. While there is a strong linkage between enterprises from both sectors, the informal sector enterprises suffer from lower productivity, poorer employment quality, and reduced earnings. The support that can be offered to make them economically viable and help them enhance productivity is an important consideration. Moreover, proactive assistance can help the dynamic informal sector businesses expand in size and transition into the formal sector, which would be the ideal outcome. This will help them access benefits that are reserved for the formal sector enterprises and concurrently boost government's tax revenue. However, transitioning into the formal economy may not be a straightforward endeavor. Some businesses may opt to operate within the informal sector in order to control costs. For others, the barriers may be envisaged in terms of the process of becoming formal business entities and the additional associated financial costs that come with it. Therefore, unless the benefits far outweigh the costs of transitioning, enterprises will likely remain unwilling to shift to the formal sector.

An endemic problem prevalent among many of the informal sector enterprises is that they are usually engaged in the production of low-quality products and services, which results in being stuck in a vicious circle of mediocrity. The way out of this cycle is by embracing product innovation and process

innovation as they are instrumental to productivity growth. Further, the abundant availability of enterprises and independent workers severely limits the prospects of upward wage mobility. This raises the pertinent questions on ways that skilling and reskilling initiatives can be implemented to facilitate occupational flexibility.

SCOPE OF THE REPORT

This research investigates the dynamics of the informal sector to recommend inclusive and broad-based productivity enhancement interventions. To raise productivity, the major constraints faced by the informal sector enterprises and workers must first be identified. This would help to strategize highly impactful initiatives. In fact, integrating the informal sector with the mainstream economy must be the primary objective, or risk the informal sector to continue operating in isolation. It is acknowledged that after establishing links with the formal sector, the possibilities of certain gross disadvantages remain due to the formal sector's dominance in controlling transactions and shaping contracts. Therefore, one question that crops up is whether formalizing the informal sector would help access specific benefits and level the playing field with the formal sector. On the other hand, extending certain advantages, such as credit and technology acquisition, and maintaining the informality can serve as a better and cost-effective strategy. By retaining the informal status, enterprises can utilize and leverage the flexibility found in informality to improve their operations and profitability.

It is important to recognize the distinct differences between the informal manufacturing and informal services sectors as their growth dynamics and the causes for low productivity vary significantly. Inadequate access to capital and materials, outdated technology, catering mainly to local markets and low-income/poor households, manufacturing low quality products with minimum cost, lack of R&D for process or product innovation, producing stereotypes, and a lack of joint ventures and collaborations in acquiring capital are some of the challenges faced by the informal manufacturing sector.

The informal services sector meanwhile is confronted with a wide range of issues, from skill gaps to the overabundance of human labor. Informal sector workers lack training and skill acquisition from formal institutions, which limits their occupational flexibility and the opportunity to experience upward mobility. It is important to recognize the informal sources of skill acquisition and making provisions for appropriate returns from the practical standpoint. State efforts, such as establishing cooperatives and providing marketing assistance can help the informal sector units cater to the upper income households and organizations within and outside the country.

Policy changes that affect vulnerable groups can be balanced with stronger safety nets, increased labor and product market flexibility, and better access to resources for the informal sector firms. In addition, policies aimed at stimulating economic development in general can contribute to reducing informality. Specific measures may include streamlining tax codes and enhancing revenue collection enforcement, easing firm and labor regulations to create a level playing field for both formal and informal participants as well as provide improved access to finance and public services to boost productivity in the informal sector. These are some of the key interventions to create an enabling environment for the informal enterprises.

To enhance the competitiveness of informal sector units, it is crucial to improve their access to finance, encourage entrepreneurship development initiatives, and reduce the entry cost for the formal sector as to encourage more informal sector units to transition into the formal sector. Similarly, simplifying procedures and provisions of tax benefits will alleviate concerns and reservations in registering as formal sector enterprises. Improving the bargaining power of informal sector enterprises, removing information asymmetry, and facilitating their direct market accessibility are instrumental for their success as the role of intermediaries will be significantly reduced. In this regard, the ICT sector plays a pivotal role and offers a tremendous potential.

EXISTING LITERATURE

In the empirical analysis, it is evident that unorganized manufacturing, trade, and services show a strong association across regions [1]. The concentration of these activities in relatively advanced states suggests that growth dynamics influences all three activities positively. This indicates that higher levels of growth, per capita income, urbanization ratio, and industrial growth can impact the performance of small manufacturing and trade units that may have been complementary to larger units. Though services may not be directly connected to manufacturing or trade, studies have shown that higher incomes generate demand for new services which are supplied by the informal sector in the economy.

In comparison to own account enterprises, which consist of a large majority of units within the unorganized sector, the establishments are more employment-generating. Labor per enterprise in establishments is significantly higher than those in own account manufacturing enterprises. Manufacturing is relatively more employment-intensive than trade and services across establishments. In rural areas, there is a positive correlation of about 0.89 between worker per establishment in manufacturing and trade. While in the urban areas, the positive association is observed between trade and services establishments.

It may then be inferred that the dynamics of production from manufacturing to trading requirements are more evident in rural areas while in the urban context, income dynamics drive the trading of goods and demand for services. This suggests that rural areas with good connectivity between manufacturing and trade experience positive effects on livelihood, earnings, and poverty reduction. On the other hand, in urban areas, the linkage between trade and services does not necessarily lead to increased earnings as workers may be engaged in the lower rungs of both activities. Despite an expansion in demand, the surplus supply of labor for petty and menial jobs restricts significant increases in earnings. In other words, some of the possible outcomes are the persistency of urban informal sector and the sector workers continue to receive meagre earnings. However, these outcomes do not mean a deceleration in population flow from rural areas to the cities. Due to the higher natural population growth in rural areas, population mobility may still occur, especially in the face of shrinking employment opportunities.

On employment and wages in the unorganized sector, employment elasticity (defined as the proportionate change in employment due to proportionate change in value added) is found to be almost unity for unorganized manufacturing while trade and services show a much lower magnitude [1]. This is despite trade and services are believed to be more labor intensive. The elasticity of employment with respect to wages per worker is negative, indicating sensitivity to changes in wages. The results of research also conform accordingly. For unorganized manufacturing and services, a 1% increase in wages can raise employment by 0.5%. Though the absolute magnitude is higher than that in the organized manufacturing, it is important to note that the wage rate in the unorganized manufacturing is much lower than that in the organized sector. Attempts to raise employment by offering lower wages can adversely affect the well-being of workers, especially considering the lack of strict implementation of labor laws, which also results in the lack of safety nets in the unorganized sector.

Labor productivity is an important determinant of wages. The elasticity of wages with respect to labor productivity is around 0.5 for unorganized trade and services, and even higher for unorganized manufacturing. However, given the lower productivity levels in the unorganized sector due to lack of capital and adoption of poor level of technology, the wage-productivity nexus does not necessarily imply better living conditions. It has been widely argued that the unorganized sector units which work for the organized sector units are better-off as regularity of work consignments may result in lesser labor turnover and higher wages.

During research, the labor contract dummy was incorporated to make a distinction between the units with and without business contracts from the formal sector units. The coefficient is not found to be

statistically significant. Therefore, it may be inferred that ancillarization and growth in productive employment in small units do not necessarily lead to faster industrialization and linkages between large and small trading units do not ensure improvement in wages in the smaller units of the unorganized sector. Nevertheless, in the case of services, a positive association indicates that large units offering work to smaller units tend to provide higher wages. Several new services have emerged in the recent years, exacting linkages between large and small units operating in two different sectors [2].

Field surveys conducted on the home-based workers in Delhi in 2009 highlighted certain features of the informal sector. Three types of activities that workers engaged in were identified - tailoring and embroidery, jewelry, and packaging [3]. Many of the workers were part of traditional weaver communities and their employment involved weaving and stitching works. Many of the households did not have any storage facilities for raw materials, like cotton. Largely, these workers received work consignments through contractors who mediated between them and shop keepers. While some products carried brand names, others were sold without any brand. Supply of raw materials and collection of the final products were carried out by contractors. There was no shortage of work consignments, but the wages offered on a piece-rate basis were disproportionately low compared to the labor hours put in with the middlemen extracting a large share of the earnings. These observations reaffirms that having contracts from the formal sector does not necessarily lead to improved wages in the informal sector.

It is important to assess the extent to which the growth of the informal sector is connected to the formal sector and its linkages. To estimate the supply-push component within informal sector, the related employment is presumed to be a function of formal sector employment, suggesting that formal sector expansion leads to increased demand for informal sector activities and employment [4]. The findings affirm that a large component of the informal sector is not connected to the formal sector.

It is also observed that many informal sector workers pursue multiple activities simultaneously as income from one source is insufficient in providing above subsistence level of living [5]. They struggle hard to diversify the sources of livelihood though such efforts do not empower them in the long run. In fact, such practices restrict opportunities for skill development and bargaining power. Further, informal sector workers continue to shift from one activity to another round the year [6]. Such volatility in the labor market exists as jobs in a specific activity are not available in a continuous manner. Wage earners in one season turn to self-employment in another; the construction workers in one quarter shift to self-employment as small transport operators or petty traders in another quarter. The vulnerability of rural migrant workers, especially in large cities, has been further exacerbated during the recent pandemic with quickly shrunk employment opportunities in urban areas [7]. With rising unemployment, they returned to the rural areas where the only respite was envisaged in terms of the government-run employment guarantee programs that offer short-term arrangements but do not empower labor neither through new skills or skill development nor asset creation. Amendments to employment regulations are important, such as stricter interventions to mitigate the exploitative roles of intermediaries in contractualization and/or business subcontracting that originate from the formal sector firms to the informal sector units [8].

SUMMARY OF THE COUNTRY REPORTS

Keeping in view the wide diversity and heterogeneity within the informal sector, the APO commissioned country specific studies from the Asian continent. The key objectives of these studies are as follows: (i) informal-sector productivity diagnosis and mapping transitioning from the informal to the formal sector; (ii) measurement of informal-sector productivity; (iii) policy interventions and support for the informal sector; and (iv) inclusive productivity. Gains from productivity enhancement are maximized when a critical mass of the economy is involved in the process. This includes the informal sector, which has a significant share of total employment in most countries. While its productivity is low, at times it

helps reduce poverty in urban areas. The COVID-19 situation has prompted the need to reexamine issues affecting the informal sector so that assistance can be extended for its postpandemic revival.

In spite of the country-specific differences, which are wide in magnitude and nature, it is evident that a large proportion of the workforce is engaged in the informal sector. However, labor productivity is extremely low, resulting in huge differences in the productivity configurations of the formal and the informal sectors. The productivity differentials are reflected in the wage differences as well. Many informal sector workers earn even less than the minimum wages as recommended by the governments. However, the country specific studies bring out a great deal of policy recommendations which have turned out to be successful in very many situations.

The following is a snapshot of the informal sector prevailing in 10 APO member economies:

Bangladesh

In Bangladesh, workers are considered to have informal jobs if, both in law and in practice, they are not covered by national labor legislation, income tax, social security, or employment benefits, such as pensions, social protection, and notice of termination as compared to formal workers. Around 57% of GDP is generated from the formal sector while the remaining 43% is attributed to the informal sector. However, in terms of employment, the pattern is just the opposite: 85.1% of the total employed (aged 15 and more) are engaged in informal employment. It is evident that the workforce engaged in the informal sector is less productive than the formal sector. Informal employment accounts for 77.3% in urban areas and 88.1% in rural areas. Sector-wise, the incidence is 95.4% in agriculture, followed by 89.9% in industry, and 71.8% in services. Labor productivity in the formal sector is approximately six times higher than in the informal sector.

Cambodia

Employment in Cambodia is also highly concentrated in the informal sector. However, along with the structural transformation and the inflow of FDI in new and more productive sectors, the share of informal employment has gradually decreased from 90.3% in 2012 to 83.2% in 2019. Including the agriculture sector, the informal employment for the workforce in the age group between 24–34 years is 85% while it is 92.2% for the workforce of 55–64 years. Informal employment is present in most of activities with varied rates of informality. The highest rate of informal employment was in the construction sector (97.2%), followed by accommodation and food service activities (95.2%). With high informality, the productivity growth rate in these economic activities has been sluggish. For instance, the productivity in the construction sector increased by only 1.7% between 2017 and 2021 while in the manufacturing sector with a relatively lower share of informal employment, the productivity growth rate was 4.3% during the same period. In addition, compared to the formal sector, in general, the informal sector pays lower wage (the informal-to-formal wage ratio was 62.7% in 2019), reflecting the lower productivity of the sector. Enterprises operating in the informal sector often face other challenges in terms of accessing finance and getting support and incentives from the government.

Fiji

The first study in Fiji on the informal sector was a research and training project called the Sustainable Livelihood Project (SLP). This project focused on providing training in the country's rural areas, particularly to workers of the informal sector. The second activity was a research and training project which was conducted in partnership with the UNDP on the Right to Information (RTI) and its instruments. This was a focus group meeting with women entrepreneurs to investigate the nature of their unregistered businesses and the reasons they hesitate to formally register their businesses. The final study focused on the issues faced by the informal sector workers, their income, expenses, literacy levels,

and the productivity gaps between informal and formal sector workers of the same profession. The findings indicate that many of the members of the informal sector in Fiji remain in unregistered businesses due to personal convenience, better control of their own income, and the dynamically changing and volatile economy.

India

Analysis of the broad pattern of informality and its several dimensions reveal that the problem of informality is persistent in India. The proportion of informal employment varies across states and sectors. The incidence of informality is high in both rural and urban areas, but rural areas and agricultural activities are more exposed to informality than the urban areas and the nonagricultural activities. Within the unincorporated nonagricultural enterprises, trading and other services are more exposed to informality than manufacturing. There is also a clear-cut gender-bias in terms of informality. The study notes a declining productivity in the informal sector vis-a-vis the formal sector.

Mongolia

In partnering with foreign research institutions, the Mongolian government conducted surveys of the informal employment sector and validated many policies for employment development and support. However, it does not address the informal sector's productivity issues and its transition to the formal sector. Informal employment is a large part of the Mongolian labor market, though in comparison to other countries, the share is on the low side (26.8% of the work force in the nonagricultural sector are engaged as informal labor). However, the number of informal own-account workers is a little less than the double that of those engaged in the formal sector. The reasons why the informal sector doesn't transition into the formal sector include high tax rates and fees, weak knowledge about business, accounting issues (28.6%), registration importunity, lack of equipment, and fixed assets.

Pakistan

The report from Pakistan suggests that the informal sector contributes a significant percentage to the country's GDP and employs 73% nonagricultural workers. The informal sector has multilevel complementarities with the formal sector in Pakistan. Both informal sector enterprises and informal workers face serious challenges that limit their productivity and well-being. The current regulatory climate makes formalization difficult, posing significant costs to existing informal enterprises. An empirical analysis of informal enterprises shows that the informal economy exists because of the difficulty of formalizing informal enterprises and a lack of adequate jobs in the formal economy. Nevertheless, there are significant productivity gaps between the formal and informal sectors, which indicate the need to reduce the roadblocks for businesses and workers to enter the formal sector.

Philippines

In the Philippines, the number of persons engaged in informal work is growing rapidly. This trend may reflect underlying issues in the country, such as intergenerational poverty, the inability to generate stable jobs to a continuously growing population, low education, weak and slow development in the agriculture and industry sectors, and the rise of nonstandard employment. The emergence of gig workers also contributes to the prevalence of informal work among Filipinos. The informal accounts for almost one-third or 34% of the GDP. Considering its growing labor force, this sector also provides employment opportunities to those who are unable to secure formal employment and provides access to cheap goods and services. However, the lack of secure employment and social protection, among other reasons, have exposed the vulnerability of informal workers, particularly during the COVID-19 pandemic. Female employees and own-account workers suffered a greater decline in working hours compared to their male counterparts. The most affected were employees in the manufacturing sector,

own-account workers in the construction sector, and employers in construction and transport and warehousing. More than 60% of informal workers reported they received inadequate assistance to cover their living expenses. A large majority of the workers found that official lockdown measures had made their livelihoods difficult in terms of reduced work hours or business operations, temporary or permanent business closure, decreased salaries or earnings, rising input prices, disruptions in the supply of essential raw materials, and difficulties in making effective business and investment decisions.

Thailand

Thailand's issues relating to employment in the informal sector can be divided into eight categories: (i) intermittent work (for nearly 50.57%); (ii) not receiving compensation as agreed (37.35%); (iii) lack of general skills (27.45%); (iv) lack of a technology and innovation skills (21.87%); (v) lack of knowledge of legal/rights related to informal labor (12.33%); (vi) inability to form a professional union (11.71%); (vii) insecure jobs (7.58%); and (viii) improper working environment (7.29%). Several constraints hinder productivity, including low compensation, occupational and economic uncertainty, and inadequate compensation relative to the cost of living. Even when individuals have job security, they may still face challenges, such as late compensation, excessively long working hours, and lack of support regarding welfare benefits.

Turkiye

In Türkiye, there is a prevailing presence of unregistered/informal employment, which has weighty ramifications in terms of adverse work conditions, income inequality, and poverty. The reasons for informality include increased labor costs, a high unemployment rate, excess bureaucratic procedures, ineffective supervision, inadequate investments and incentives, high insurance premiums, and excessive tax rates. In this study, the Microdata of the Household Labour Force Survey analysed on informality from 2016 to 2021. The analysis also looked into informality based on firm scale, region, sector, and gender, revealing differences and exploring the relationship between informality and employee wages. The study showed that informality decreased from 38% in 2020 to 34% in 2021. Further, it also noted that micro firms have a higher rate of informality. Regionally, informality appears to decline as one moves from east to west. Sector-wise, the lowest incidence of informality is witnessed in the industry sector while within this sector, informality is high in low-technology subsectors. The probability of engagement in the informal sector increases with age and the average wage of a registered employee is 1.8 times higher than that of an informal employee. The industrial sector recorded the highest value added per employee during the period of 2015–20, followed by the construction and services sector. Within the manufacturing, the high-tech subsectors (transport equipment, computer and electronics, and pharmaceutical) demonstrated higher index values.

Vietnam

A large proportion of the Vietnamese workforce is engaged in the informal sector, which plays an integral part in job creation and income generation. Despite the negativity associated with this sector, it has contributed substantially to both the aggregate economy and the job market. A huge number of workers had to choose informal work as the sole means of livelihood. However, they have had to endure unfair working conditions, inadequate pay, and a lack of access to social and insurance provision. The Vietnamese government has long recognized the importance of the informal sector and made efforts to improve its conditions. However, formalizing this sector has met numerous constraints. Adding to this, the livelihood of the informal sector was significantly impacted due to the COVID-19 pandemic.

EFFECTIVE POLICY INITIATIVES

To improve productivity and earnings in the informal sector, two important strategies need to be initiated:

- Remove constraints faced by the informal sector enterprises
- Improve the skills and human capital of the workers

A number of key points emerge from the national reports, summarized as follows:

The report from Bangladesh emphasizes that policies for the overall development of the informal sector is essential. This, among others, includes conducting more research on present and future skill demands for various occupation, establishing linkages between training institutes and industries to formalize informal activities, and promoting entrepreneurship and decent works conditions. An integrated approach is essential to consider the formal-informal linkages. Stakeholders, such as the government, policy makers, donors, NGOs, and other relevant organizations need to critically evaluate the informal sector and adopt appropriate measures to ensure sustainable growth and livelihood opportunities.

In Cambodia, the government has implemented several supporting policies, not only to support businesses in the informal sector, but also to facilitate the transition to the formal sector. This includes the launch of a new online business registration process, provide skills training, and expand the social security coverage, among others. These policies are still relevant and some of them are new. Thus the implementation, monitoring, and evaluation mechanism need strengthening to achieve the government's optimal objective of improving productivity and transitioning the country from a lower-middle-income to an upper-middle-income status by 2030 and to a higher-income country by 2050.

The report from Fiji examines the informal sector's existence, operation, productivity, and challenges. It also suggests pathways for collaborative assistance with relevant stakeholders, such as the private sector, legal and statutory bodies, government agencies, NPO, and NGOs, in the efforts to formalize the informal sector. Training projects are proven effective in upskilling workers and facilitating better employment. The study recommends some policy rectifications, increased training programs, digital literacy initiatives, and additional support programs for members of the informal sector with the potential to transform Fiji's informal sector into a formal one. A multifaceted approach is required to ensure the sustainability of the economy and provide inclusive and productive means of operation for informal.

Considering the significant contribution of the informal sector to India's national economy, the issue of informality and low productivity requires a practical approach and integrated strategies to facilitate the transition to formal economy, create new formal jobs, and prevent further informalization. Policy levers, such as literacy, capacity building, physical infrastructure, infrastructure accessibility, and governance reforms can foster the growth of this sector and promote entrepreneurship. As informal firms are heterogenous, the challenges they face are also distinct. Therefore, there is a compelling need for a systematic approach to deal with the different sets and sizes of challenges. By addressing factors that counter the uneasiness of doing business, informal firms can be incentivized to move toward formalization and experience productivity gains.

The report from Pakistan concludes with a discussion on policy gaps and recommendations. These include building broad-based support for legislative efforts to reduce regulatory hurdles for establishing formal enterprises and that the efforts are not interrupted with changes in government. The other suggestions include conducting systematic studies on ways taxation systems can be enhanced to increase firm level productivity, continuation of financial inclusion initiatives that reduce finance-related barriers to smaller enterprises, and building support to push for the enactment and implementation of

recently enacted labor laws for informal workers and enterprises. The report also highlights the need to bring more categories of informal workers within the folds of existing legislation.

In the Philippines, various programs and initiatives have been enacted to reduce poverty, provide social assistance, and promote social development. Though there have been improvements, more needs to be done to improve the tough plight of millions of informal workers. Policies focusing on increasing employability, productivity, job security, and social protection as well as having the opportunity to have a voice and representation in the system are essential. Lessons learned over the years must serve as building blocks for the development of better solutions.

The report from Mongolia emphasizes the need for its policy initiatives to consider the different groups in the informal economy. While young workers may want to pursue short-term businesses, self-employed people in construction and industry sectors may prefer the quick transition to formal economy. On the other hand, workers from the transportation sector are not in a hurry to shift out of the informal sector.

To enhance the well-being of Thailand's informal workers, the report recommends scaling up opportunities for stable income and career growth. Standardized learning and skill development should be made accessible to all, along with the support for transitioning from informal to formal employment. Social protection, savings systems, and community welfare initiatives should be developed and made sustainable. Vocational and community college education is also essential to increase the number of skilled workers. Additionally, career opportunities should be encouraged and funding sources made more accessible. Workers must be supported with labor laws that are enforced, regulated, and monitored from time to time. Policies which contribute to informal workers' career development and income increase should be promoted. Financial support in different occupations is instrumental to business expansion. Further, agriculture should be strengthened by reducing production costs and supporting agricultural product prices. A platform to develop an informal workers' network that allows them to register both online and on-site can enhance job accessibility. Overall, the policy recommendations offer a comprehensive strategy to enhance the well-being of informal workers, promote their career growth and income, and improve their quality of life.

Disruptions in the labor market have led to increased informality in Türkiye. Factors, such as high insurance premiums and high tax rates in the labor market have resulted in the prevalence of unregistered/informal employment. Reforms in the labor market institutions and policies applicable for appropriate wages in the labor market are crucial. Unions need to review their stances and policies related to the conditions of the labor market.

Vietnam has implemented direct support programs for the informal sector in the form of cash assistance to workers, particularly those in disadvantaged sectors. The negative impacts of the COVID-19 pandemic on employees and businesses prompted the government to issue a resolution to endow a huge support package for workers. Policies are necessary to support employees and employers to transition into the formal sector, provide insurance coverage for occupational accidents and diseases, extend training support, and job sustenance initiatives to support employees as well as assist entrepreneurs in settling loans and expanding their business. Digital transformation can increase transparency in the informal economy in Vietnam through the implementation of a centralized data center and an identification system. It simplifies business registration and licensing, helps track economic activities for tax purposes, and bridges the gap to formal financial services, thereby facilitating operations within the formal sector.

Overall, research on the informal sector provides a wide range of policy insights, addressing situational differences and the heterogeneity involved within this sector. Policy initiatives need to be undertaken promptly, considering the devastating impact of the pandemic on livelihood opportunities. Further, significant interventions are necessary to reduce the intersectoral gaps in productivity and wages for the healthy growth of the economy.

CHAPTER 1

BANGLADESH

EXECUTIVE SUMMARY

The informal sector is a collective term referring to all legal economic transactions that are not included in the National Accounts. It comprises workers in the informal sector and informally employed workers in formally established enterprises. Workers are classified as having informal jobs if, both in law and in practice, they are not covered by national labor legislation, income tax, social security, or employment benefits, such as pension, social protection, and a notice of termination, compared to formal workers. The size of the informal sector varies from one economy to another.

In Bangladesh, the formal sector contributes 57% of GDP while the remaining 43% is from the informal sector. About 85.1% of the total employed individuals aged 15 and above fall into informal employment with only 14.9% in formal employment. Therefore, it is evidently clear that the workforce working in the informal sector is far less productive than the formal sector. This underscores the urgent need to transition the informal workforce to the formal sector to improve productivity and increase GDP growth. Informal employment accounts for 77.3% in urban areas and 88.1% in rural areas. In rural areas, 93.3% of females are in informal employment compared to 87.3% in urban areas. Sector-wise, 95.4% of total employment in the agriculture sector is informal, followed by 89.9% in the industry sector, and 71.8% in the service sector.

Productivity issues were not given priority in Bangladesh in the early 1980s. The concept of productivity were not well understood both theoretically and practically. According to the ADB, the informal sector accounted for over 40% of the total gross value added in Bangladesh with labor productivity in the formal sector being six times higher than in the informal sector. However, the gap is decreasing over time. Immediate initiatives are needed to address the issues, such as policy formulation for overall development of the informal sector, conducting more research on present and future skills demand of all occupations, establishing linkages between training institutes and industries to formalize informal activities, and promoting entrepreneurship and decent works conditions. An integrated approach is urgently needed and implemented in the shortest possible time. Stakeholders, such as the government, policy makers, donors, NGOs, and other relevant organizations should critically evaluate the double-edged nature of the informal sector and implement appropriate measures to ensure sustainable growth and create decent livelihoods as to increase the workforce in the formal economy.

INTRODUCTION

In Bangladesh, the formal sector contributes 57% of GDP while the remaining 43% is from the informal sector. About 85.1% of the total employed persons aged 15 and above fall into informal employment with only 14.9% in formal employment. Therefore, it is evidently clear that the workforce working in the informal sector is far less productive than the formal sector. It underscores the urgent need to transition the informal workforce to the formal sector to improve productivity and increase GDP growth [1].

The sector that lacks formal status is called the nonformal sector. It is characterized by its unofficial, unrecorded, partially legal, and nontaxable status. This sector operates outside the purview of the government. However, recent research and exploration works on the sector have resulted in a more benign and understanding approach, where the names and definitions to better define its broad and specific characteristics and issues.

There are several ways to approach or define the informal sector, which mainly consists of micro and small enterprises. Informal workers are less likely to receive pensions, social protection, and a notice of termination, compared to formal workers [2].

INFORMAL SECTOR IN BANGLADESH

Concept and History of the Informal Sector

Beneath the surface lies a vast web of heterogeneous informal employment. The informal sector includes activities and workers that are often less visible, and sometimes, invisible. Common places of informal work are in farms, markets, bazaar stalls, and trade fairs. Less visible informal workers work in small workshops. The sector also includes: (i) the casual workers in restaurants and hotels; (ii) subcontracted janitors and security guards; (iii) casual or day laborers in construction; (iv) piece-rate workers in sweatshops; and (v) temporary office helpers or off-site data processors.

According to the ILO, the informal economy comprises workers in the informal sector as well as informally employed workers in formally established enterprises. An individual can be employed informally in a formally registered business or regulated economic sectors. A formally employed worker in the formal sector has written employment contracts and their employment is subject to labor legislation, social security provisions, and collective bargaining agreements. However, for those employed informally in the formal sector, no legislation or regulations apply. Workers are considered to have informal jobs if, both in law and in practice, they are not covered by national labor legislation, income tax, social security, or employment benefits, such as paid annual leave or sick leave.

The concept of the informal sector has evolved over time. In the 1950s and 1960s, there was a common view that the traditional sector, comprising petty traders and small producers, and the range of casual jobs would eventually be absorbed into the formal economy during the process of economic growth. However, by the early 1970s, the Kenya Employment Mission of the ILO recognized that the traditional sector had not only persisted but had even expanded to include profitable and efficient enterprises as well as marginal activities. To reflect that phenomenon, the Kenya Mission decided to use the term “informal sector” rather than “traditional sector” to encompass the range of small-scale and unregistered economic activities. Since then, the term informal sector has become popular in the economic literature.

The role of the informal sector in economic development has been a subject of debate. By the 1980s, the focus of the informal sector discussion had expanded to include the changes that were taking place in developed countries. The increased presence of the informal sector sparked a growing interest in statistics among international organizations. The 15th International Conference of Labour Statisticians in 1993 defined the informal sector as all unregistered or unincorporated enterprises below a specific size, including: (i) microenterprises owned by informal employers who hire one or more employees on a continuing basis; and (ii) own-account operations owned by individuals who may employ contributing family workers and employees on an occasional basis [3].

Significance of the Informal Sector

The informal economy provides employment opportunities, particularly in developing countries, to those who lack employment security, work security and social security. It serves as an accessible economy that provides opportunities to acquire skills and knowledge to transition into the formal economy. While it provides the advantage of employment flexibility in certain economies, a large informal sector is associated with low productivity, reduced tax revenues, poor governance, excessive regulations, poverty, and income inequality.

The size of the informal sector varies from one economy to another. It tends to be larger in countries where the tax collection mechanism is immature or underdeveloped. It can also be dependent on the organizational behavior of the economy and the ways people choose to conduct economic activities. Although the informal sector makes up a significant portion of the economies in developing countries, it is sometimes stigmatized as troublesome and difficult to manage. However, the informal sector provides critical economic opportunities for the poor and has been expanding rapidly since the 1960s. Integrating the informal economy into the formal sector poses an important policy challenge. In many cases, unlike the formal economy, the activities of the informal economy are not included in a country's GNP or GDP. Broadly defined, the informal sector is a collective term referring to all legal economic transactions that are not accounted for in the National Accounts.

Characteristics of the Informal Sector

The informal sector has amassed various names that when put together, they allow researchers to understand the diverse characteristics of the sector. They are black market, casual work, clandestine activities, community of the poor, family-enterprise, gray economy, hidden sector, informal economy, informal opportunities, intermediate sector, invisible sector, irregular sector, lower-circuit of the urban economy, non-plan activities, non-westernized sector, one-person enterprise, parallel economy, people's economy, petty commodity production, shadow economy, trade-service sector, transient sector, underground economy, unobserved economy, unofficial economy, unorganized sector, unrecorded economic activities, unremunerated sector, unstructured sector, and urban subsistence sector.

In practice, work in the informal economy is often characterized by small or undefined workspaces, unsafe and unhealthy working conditions, low levels of skills and productivity, low or irregular incomes, long working hours, and limited access to information, markets, finance, training, and technology. Within the urban context, a significant proportion of informal employment worldwide can be categorized into these four occupational groups:

- i) Domestic workers
- ii) Home-based workers
- iii) Street vendors
- iv) Waste pickers

There are distinct areas with specific characteristics within the informal sector. They can be characterized as follows:

i) Employment - Characteristics of people engaged in the informal sector

- Absence of official protection and recognition
- Noncoverage by minimum wage legislation and social security system
- Absence of trade union organization
- Low income and wages with little job security
- No fringe benefits provided by institutional sources

ii) Enterprise - Characteristics of activities in the informal sector

- Unregulated and competitive markets
- Small-scale operation with individual or family ownership
- Reliance on locally available resources
- Labor intensive and adapted technology
- Absence of access to institutional credit or other support and protection

iii) Habitat - Characteristics of land and housing in the informal sector

- Unauthorized use of vacant public or private land
- Unauthorized construction of structures and buildings
- Reliance on low cost and locally available scrap construction materials
- Absence of restrictive standards and regulations
- Reliance on family labor and artisanal techniques for construction
- Nonavailability of mortgage or any other subsidized finance

iv) Credit - Characteristics of informal credit markets

- Unregulated and nonsubsidized
- Availability in very small size and for short terms
- Low administrative and procedural costs
- Little or no collateral requirements
- Flexible interest rates
- Highly flexible transactions and repayments tailored to individual needs

Positive Impacts of the Informal Sector

The definition of the informal sector has evolved over time. It can be defined through its activities in urban and rural economies: micro- and small-scale economic activities in crafts, trade, restaurants, or open food stalls, transport, repair and maintenance, etc. These activities are often carried out from temporary structures, sometimes even pavements and other open spaces. The issue can be approached from the perspective of employment status: some employees in the formal sector may have the characteristics associated with the informal sector. Therefore, it is necessary to include them in the discussion on informal economy.

Hence the informal economy should include not only those in the informal sector, but also the informally employed in the formal sector, domestic staff in households, casual workers, and subcontractors. The sector is recognized as a reservoir of indigenous entrepreneurs, technology, and skills. Its role is vital in generating employment, optimizing the utilization of scarce resources, and expanding nonagricultural employment - offering an urban foothold to the society's disadvantaged. The informal sector also provides income opportunities to the urban poor, supply basic goods and services at affordable prices, and stimulate innovation and adaptation of technology, which have substantiated its significance as a driver of economic growth.

Therefore, the informal sector produces positive economic effects in developing countries in providing sources of livelihood and economic opportunities that are usually unavailable in the formal sector.

Disadvantages of the Informal Sector

While the informal sector does have its positive impacts, it also comes with several disadvantages, which include:

- Little or no job security
- Unprotected by labor laws
- Odd working hours for yearlong without leave
- No pension, insurance, or health insurance scheme
- Maximum time at work but difficult to make any savings due to low wages
- Illnesses or injuries can mean no financial means to survive

Working Conditions and Legal Protection in the Informal Sector

Almost all workers in the informal economy share a common challenge: the lack of formal labor and social protection. The majority of these workers are informally employed, lacking secure contracts, worker benefits, and social protection. These leaves them highly vulnerable as employers are not obligated to provide any explanation or follow any specific rules when terminating an informal employee.

Workers are further exposed as the informal sector operates outside the purview of labor legislation. Under the circumstances, the probability of exploitation will likely remain high for this sector. As a result, decent work deficits are prevalent in the informal sector. From the perspective of unprotected workers, the negative aspects of working in the informal sector far outweigh its positive aspects.

Barriers of the Informal Sector

Impediments Faced by Poor Entrepreneurs

Operating outside the statutory legal framework has considerable costs. The majority of self-employed individuals and wage workers in the informal sector are deprived of job security, social protection, worker benefits, and representation or voice. The self-employed not only have to take care of themselves but also manage their enterprises and, if applicable, their employees or unpaid family members if they run a family business [4].

Similarly, informal wage workers also face the responsibilities of taking care of themselves as they receive minimal or no employer-sponsored benefits. Further, both groups receive no legal protection from the government. As a result of these factors and others, a higher percentage of people working in the informal economy are poor compared to those working in the formal economy [4].

Bangladesh's legal and regulatory framework makes it nearly impossible for most informal entrepreneurs to operate formally. Virtually all regulatory requirements for businesses, such as registration with the Registered Joint Stock Companies (RJSC) or the Bangladesh Small and Cottage Industries Corporation (BSCIC), obtaining a Tax Identification Number (TIN), acquiring a trade license or other permits, and paying taxes, involves substantial costs [4].

Additionally, fulfilling regulatory requirements necessitates frequent visits to the relevant government offices (sometimes requiring travel to the capital Dhaka or other urban centers) and/or involve the use of influence or informal payments. Also, to obtain various regulatory registrations/licenses, a business typically needs to have business premises that are identified as such. To conduct their business and survive, the self-employed in the informal sector usually need to bribe not only local extortionists but also sometimes government officials, such as the police, officials of the city corporation, etc. They have to pay 'rents' (bribes) to the authorities to safeguard and protect them. There are other forms of extracting rents. In some cases, local musclemen are often backed by local political leaders, collect protection fees through threats. Despite these payment, their business operations are not guaranteed and they lack protection of law.

Limited access to formal credit is another major constraint for informal businesses. Credit is needed for the self-employed in the informal sector to sustain existing activity and expand their activities. Currently, NGOs are the only source of formal credit extended to informal businesses as they provide microloans.

However, there is a need to significantly expand the microcredit outreach to ensure credit is readily available to poor entrepreneurs. In addition, other difficulties with microcredit have also been identified in some cases. Informal entrepreneurs often resort to obtaining credit from noninstitutional sources at high interest rates. Lack of access to necessary utility services is another disadvantage faced by informal business. For instance, home-based businesses are charged higher commercial utility rates, irrespective of their size or revenue. Frequent changes in utility charges can disrupt the poor's and small entrepreneurs' business plans.

General Business Laws and Regulations

Currently, there is no existing legal framework that could facilitate the gradual formalization of informal businesses. An assessment of current business laws and regulations clearly indicates that it is not easy to bring poor informal entrepreneurs within the scope of the existing legal framework. Instead, a feasible way to accord legal protection to these entrepreneurs is to establish a new regulatory regime [4].

The legal framework that applies to businesses in Bangladesh is burdensome due to various factors, such as lack of public information about relevant laws and regulations, the fragmentation nature of

legal and regulatory requirements among different ministries and offices, and delays and demands for informal payments that plague virtually every registration or certification requirement [4].

Trade License

Legislation governing city corporations and municipalities prohibits any person from engaging in or maintaining any trade or business within their jurisdiction without obtaining a trade license from the respective city corporation or municipality [4].

Informal enterprises operating within the jurisdiction of city corporations or municipalities violate this legal requirement. However, there is no similar requirement for trade licenses for enterprises operating outside the jurisdiction of city corporations or municipalities, such as rural enterprises [4].

For poor entrepreneurs in the informal sector, the procedure for obtaining trade license is both complex and costly. Applications for a trade license must be accompanied by copies of rent receipts or rental agreements and holding tax payment receipt. Informal enterprises which do not have any legal issues and challenges on the Productivity performance of the informal sector in selected apo members to the occupied land or premises cannot fulfill this requirement [4].

Incorporation

Incorporation is not essential to formally operate a small business. Thus it may be possible to operate formally by obtaining the necessary tax and VAT registrations and trade licenses without incorporation. However, it is recognized that incorporation, whether as a company, society, or partnership, does provide certain business advantages [4].

SME Policy

The government has attached significant importance on the development of SMEs as a means of poverty reduction. The Bangladeshi government has also implemented an SME Policy [4], which encompasses several key elements, including:

- Surveying SMEs to identify industries with growth potential
- Strengthening the role of public agencies, such as BSCIC to provide more effective support to SMEs
- Providing tax incentives to SMEs
- Simplifying relevant laws and regulations
- Fostering subcontracting and other linkages between SMEs and larger enterprises
- Promoting e-commerce to support SMEs production and marketing
- Establishing an information bank or database to improve marketing and trade opportunities

Conditions of the Informal Sector

The present state of the informal sector in Bangladesh underscores the urgent need for education, training, and skills development for decent work. The urban informal sector exhibits lower productivity, largely attributed to a labor force with low levels of education and skills. This evidently has been one of the principle causes of low productivity in most sectors, including the urban informal sector.

The labor market has witnessed a rapid informalization due to high levels of unemployment, increased job insecurity, and displacement. The growing risk of exclusion from employment for those without appropriate skills has also grown, emphasizing the urgent need for continuous acquisition of skills through training and education. The government's policy has not adequately addressed the informal sector. It is of utmost importance that national labor policy should plan to include the informal sector, which is emerging as a growing and productive source of employment.

The term "informal sector" came into common usage in 1972 and has since continued to gain recognition as a central theme in employment and human development. In the context of Bangladesh, although still largely disregarded in national laws and policies, or subject to various forms of suppression, the informal sector provides employment for up to 85.1% of the total employed persons aged 15 and above with only 14.9% engaged in formal employment. The informal sector is broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to those involved. It operates outside the economy that is neither taxed nor monitored by the government.

The least visible informal workers, predominantly women (15.2% of women across the country have informal employment), sell or produce goods from their homes. They include garment makers, embroiderers, paper bag makers, hair band makers, food processors, shoe makers, and others. Some of these home-based workers work on their own account while others work on a piece-rate basis for contractors or firms. It is widely acknowledged that child labor is prevalent in the informal sector with approximately 1.7 million child laborers in the country, concentrated mostly in the capital. As high as 89.6% children of the country are engaged in the informal sector who are either hired or work as wage laborers.

Nearly all categories of informal sector employment are also categorized as informal employment. The informal employment rate is regarded as an important indicator of employment quality in an economy. Individuals can be identified as working in the informal sector based on their main activity. For the Quarterly Labour Force Survey (QLFS), the operational (statistical) definition for informal employment in Bangladesh includes:

- i) All individuals engaged in informal employment operationally, comprising both wage and salaried workers in the nonagriculture sector with no pension or retirement fund contribution
- ii) All contributing family workers
- iii) All employers and own-account workers in the informal sector enterprises (operationally defined as all private unincorporated enterprises engaged in nonagriculture work that do not have any registration)
- iv) All own-account workers employed in private households

OVERVIEW OF THE LEGAL FRAMEWORK FOR ENTREPRENEURSHIP IN BANGLADESH

Understanding informal entrepreneurship and employment requires examination in relation to the legal framework in any given country. There is a distinction between illegal processes or arrangements and illegal goods and services. While production or employment arrangements within the informal economy often operate in a semilegal or illegal manner (e.g., the absence of required licenses, tax registrations, etc.), most informal enterprises and workers produce and/or distribute legal goods and services.

Admittedly, a segment of the informal economy is the criminal economy. It not only operates illegally but also deals in illegal goods and services. However, it is only a small part of a larger whole, which is mostly not illegal or criminal. Many informal entrepreneurs operate semi-legally or illegally because the regulatory environment is too costly, burdensome, or simply nonexistent. Also, many activities in the informal economy do not generate sufficient output, employment, or income to fall within existing tax brackets.

INFORMAL EMPLOYMENT IN BANGLADESH

Informal employment dominates in the country, as indicated in the Labour Force Survey (LFS) 2015–16 conducted by the Bangladesh Bureau of Statistics (BBS). At the national level, 85.1% of the employed population is engaged in informal employment with 91.8% being female and 82.1% for the male counterpart.

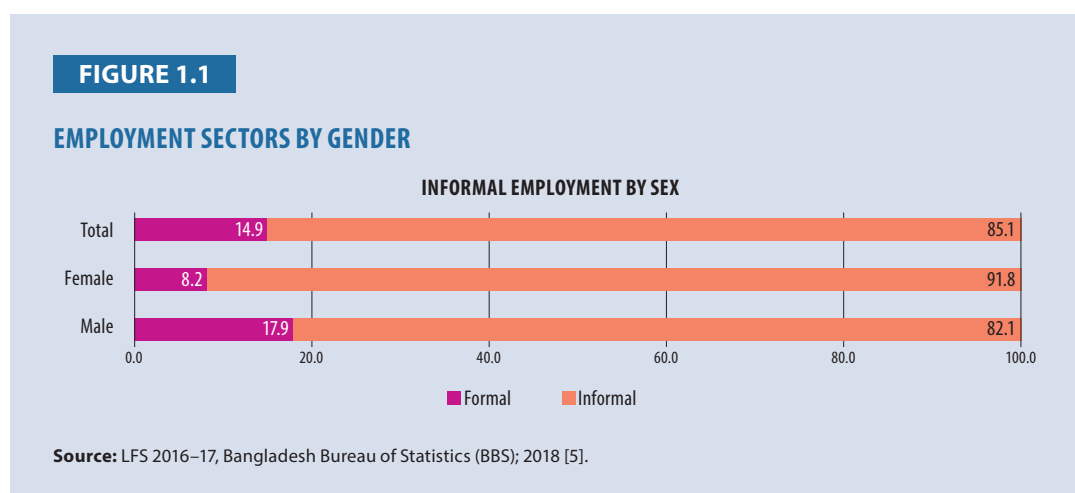


TABLE 1.1

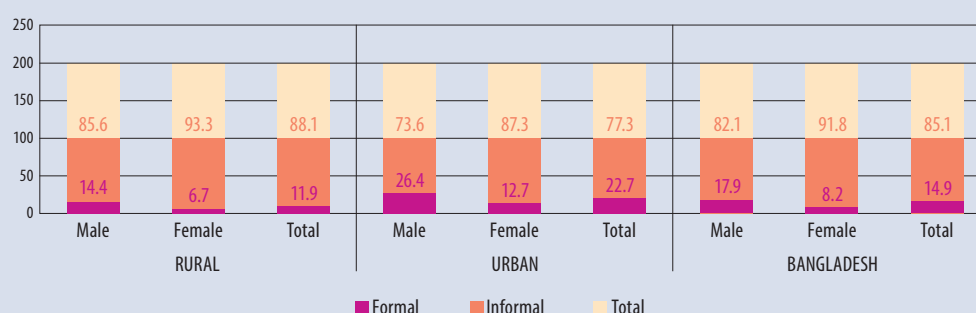
EMPLOYED POPULATION AGED 15 AND OLDER BY SECTOR, GENDER, AND AREA

Sector of Employment	Rural			Urban			Bangladesh		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Formal	4,298	946	5,244	3,270	579	3,850	7,569	1,525	9,094
Informal	25,511	13,130	38,641	9,102	3,991	13,093	34,613	17,121	51,734
Total	29,809	14,076	43,885	12,372	4,570	16,943	42,182	18,646	60,828

Table 1.1 and Figure 1.2 show the contribution of informal employment in urban areas is at 13.1 million (77.3%) while in rural areas is at 38.6 million (88.1%). In rural areas, 13.1 million females (93.3%) are in informal employment compared to 4 million females (87.3%) in urban areas. Overall, out of the total employed population of 60.8 million, over 51.7 million workers (85.1%) are informally employed.

FIGURE 1.2

EMPLOYED POPULATION AGED 15 AND OLDER BY SECTOR, GENDER, AND AREA IN PERCENTAGE



Source: Labour Force Survey 2016–17, Bangladesh Bureau of Statistics (BBS); 2018 [5].

Table 1.2 shows that of a total of 51.7 million persons engaged in informal employment, 31% fall into the age bracket of 15–29 years, 64.9% were 30–64 years old, and only 4.1% were 65 and older. Overall, the proportion of informal employment among females (91.9%) was significantly higher than that among males (82%). The percentage distribution of informal employment from Table 1.2 portrays a scenario, where both in rural and urban areas, the proportion of informal employment in rural areas for females (93.3%) is higher than in urban areas (87.4%).

TABLE 1.2

TOTAL INFORMAL EMPLOYMENT BY AGE GROUP, GENDER, AND AREA

Age Group	Rural						Urban						Bangladesh					
	Male		Female		Total		Male		Female		Total		Male		Female		Total	
	'000	%	'000	%	'000	%	'000	%	'000	%	'000	%	'000	%	'000	%	'000	%
15–29	7,516	88.9	3,729	91.8	11,245	89.8	3,061	86.0	1,709	91.3	4,770	87.8	10,577	88.0	5,438	91.6	16,015	89.2
30–64	16,409	83.7	9,188	94	25,597	87.1	5,732	68.3	2,238	84.5	7,970	72.2	22,141	79.1	11,426	92.0	33,567	83.0
65+	1,539	88.3	218	90.6	1,758	88.5	320	76.4	45	93.3	365	78.2	1,857	86.0	264	91.0	2,123	86.6
Total	25,464	88.4	13,135	93.3	38,599	88.0	9,112	73.7	3,992	87.4	13,105	77.3	34,576	82.0	17,128	91.9	51,704	85.0

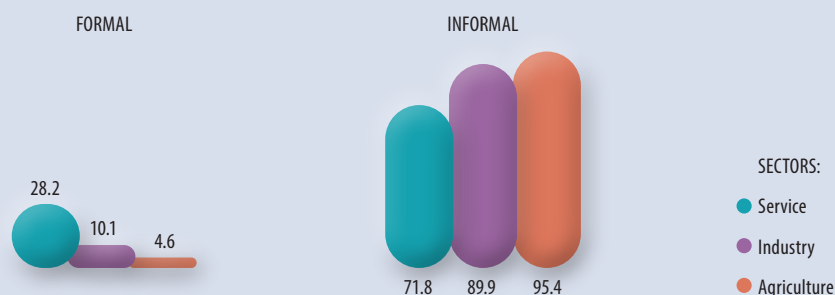
Informal employment widely varies across different age groups and between rural and urban areas. In urban areas, informal employment stands at 77.3 % and 88% in rural areas, representing the largest number of informally employed workers. The proportion of informal and formal employment in rural areas for females (93.3%) is higher than in urban areas (87.4%). Table 1.2 shows that both in rural and urban areas, females and youths aged 15–29 are more likely to be engaged in the informal employment than male counterpart.

Informal Employment by Economic Sectors and Occupations

The distribution of informal employment across the broad economic sectors in Bangladesh is highlighted in Figure 1.3. The percentage of informally employed persons in total employment is remarkably high in all sectors; specifically, 95.4% in the agriculture sector, followed by the industry sector (89.9%), and the service sector (71.8%).

FIGURE 1.3

DISTRIBUTION OF INFORMAL EMPLOYMENT ACROSS ECONOMIC SECTORS IN PERCENTAGE



Informal employment varies significantly across economic sectors. In the agriculture sector, 95.4% of total employment is in the informal employment, followed by 89.9% in the industry sector, and 71.8% of the service sector (Table 1.3). This also shows that there are wide variations in the rate of informal employment by area in all the sectors.

TABLE 1.3

FORMAL AND INFORMAL POPULATION BY SECTOR AND AREA

Sector of Employment	Rural						Urban						Bangladesh					
	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal	Total
Agriculture	1,015	2.3	21,684	49.4	22,699	51.7	129	0.8	1,864	11	1994	11.8	1,145	1.9	23,548	38.7	24,693	41
Industry	702	1.6	6,740	15.4	7,442	17	553	3.3	4,429	26.1	4982	29.4	1,256	2.1	11,168	18.4	12,424	20
Service	3,526	8	10,218	23.3	13,744	31.3	3,167	18.7	6,800	40.1	9967	58.8	6,693	11	17,018	28	23,711	39
Total	5,244	11.9	38,641	88.1	43,885	100	3,850	22.7	13,093	77.3	16943	100	9,094	14.9	51,734	85.1	60,828	100

FIGURE 1.4

TRENDS OF INFORMAL EMPLOYMENT RATE BY YEAR

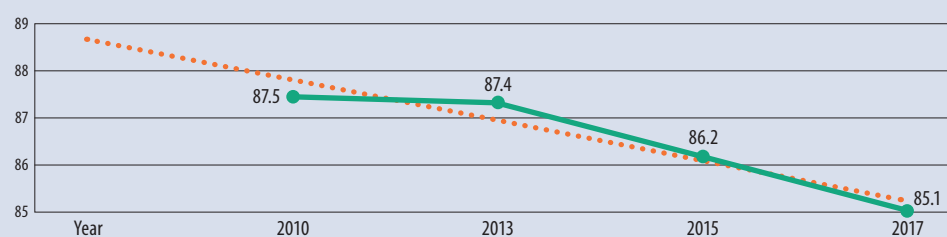
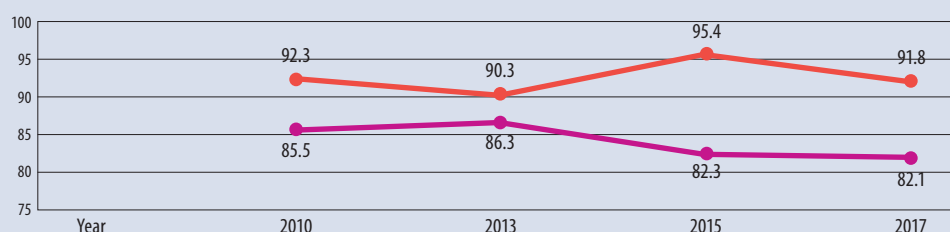


FIGURE 1.5

PROPORTION OF INFORMAL EMPLOYMENT



Self-employed workers are predominantly engaged in informal activities, regardless of their legal status. These activities are usually conducted without proper recognition from the authorities. In Bangladesh, the labor market consists of three categories: formal, rural informal, and urban informal. The formal market operates within the legal framework includes contractual employment relationships, labor laws and regulations, and unions. However, these protective labor regulations and unions do not cover the informal sectors, which dominate the labor market in Bangladesh. Workers under informal employment arrangements or those working in informal enterprises are more vulnerable to economic and social shocks [2].

Informal skills development falls outside the scope of government schemes and programs. Although numerous NGOs (both large and small) continue to carry out their mission in providing skills training to especially the marginalized and disadvantaged youth, their contributions are not recognized by the government.

The private sector employs many such informally trained young people. International aid and grants have been channeled to many of these NGOs. Prominent development partners, such as the EU, Canada, Social Development Commission (SDC), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Sweden, UNICEF, the World Bank, and ADB support these initiatives. For example, UNICEF has implemented a program that provided six-month informal apprenticeship course to about 2,000 urban working children with minimal education. More than 90% of the graduate children have either secured wage employment or started their own small businesses [2]. Various donors are currently supporting projects to simplify and automate some of the regulatory requirements, and to promote awareness of these requirements through brochures, toolkits, and websites.

Formal work environment in Bangladesh is undergoing a rapid transformation due to globalization and technological advancements. As a result, the majority of the workforce is engaged in the informal sector. These include nonfarm and off-farm rural subsistence activities as well as family-run urban microenterprises [2].

PRODUCTIVITY IN THE INFORMAL SECTOR IN BANGLADESH

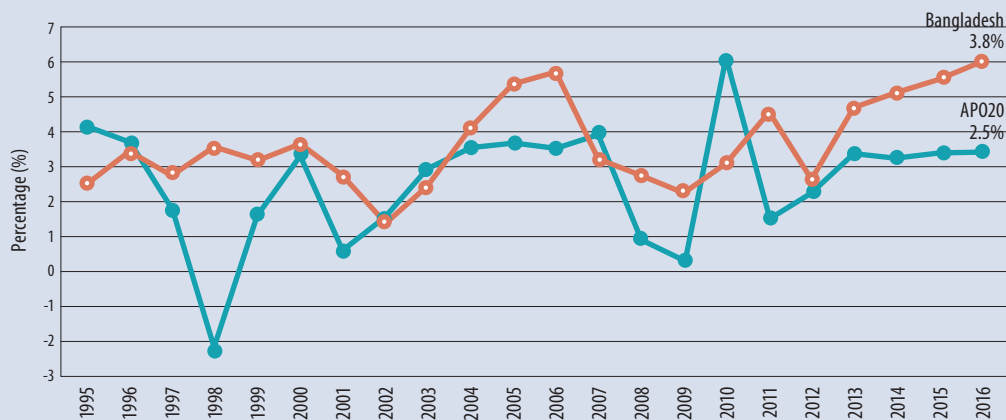
Experts have emphasize that the highest utilization of resources is the reflection of productivity. In modern world, “productivity” is not merely an economic term but also crucial in the administration and management of public and private sectors. It encompasses economy, efficiency, and effectiveness of the available resources in delivering services.

In Bangladesh, productivity matters were not given priority in the early 1980s. Further, there was a lack of understanding of its context, both theoretically and practically. After a decade of independence, Bangladesh became a member of the Asian Productivity Organization (APO) in 1984.

Typically, the demography of a developing country like Bangladesh witnesses a large number of its young people enter the workforce each year. However, limited educational opportunities result in many unskilled job-seekers. The levels of productivity in a sector can be determined by the efficiency of workers, the technology used, the timeframe of delivery, and the quality of the output. According to the ADB, the informal sector accounted for over 40% of Bangladesh's total gross value added in 2010. However, it should be noted that the labor productivity in the formal sector is six times higher than in the informal sector.

FIGURE 1.6

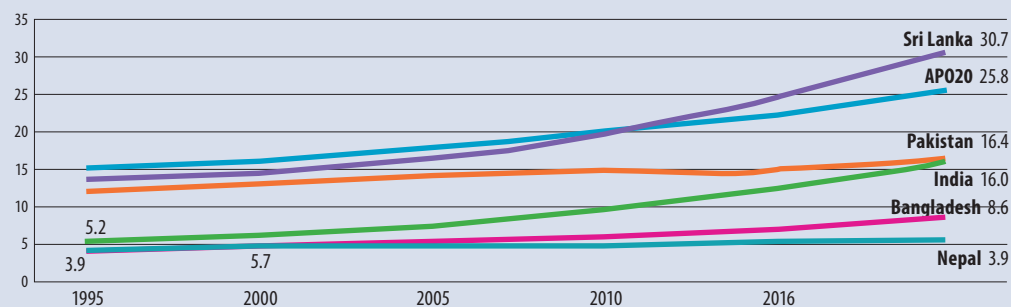
BANGLADESH'S PRODUCTIVITY GROWTH IN COMPARISON TO APO20



Source: Bangladesh National Productivity Master Plan FY2021–FY2030 [6].

FIGURE 1.7

BANGLADESH'S PRODUCTIVITY LEVEL COMPARED WITH OTHER SOUTH ASIAN ECONOMIES



Source: Bangladesh National Productivity Master Plan FY2021–2030 [6].

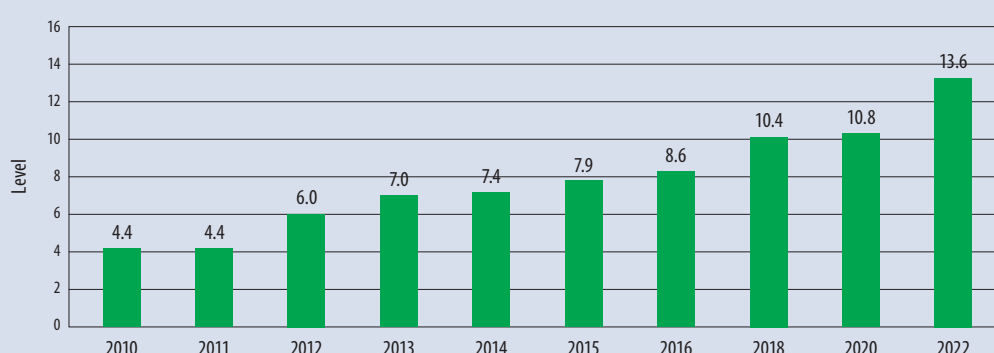
Renowned productivity expert Paul Krugman says “Productivity isn’t everything, but in the long run, it is almost everything. A country’s ability to improve its standard of living over time largely depends almost entirely on its ability to raise output per worker”.

Targeting the 60th year of Bangladesh’s independence, the NPO developed a comprehensive plan called Bangladesh National Productivity Master Plan FY2021–FY2030. It aimed to implement a high-productivity growth strategy across the country in a holistic manner. Between 1995–2016, Bangladesh’s productivity grew by 3.8% per annum, surpassing the APO20’s 2.5% average. This was due to Bangladesh starting from a very low productivity level, and the 3.8% annual growth raised its productivity level by 2.2 times.

Despite the improvement, Bangladesh’s productivity was only 33% that of APO20 average in 2016, putting Bangladesh in the third lowest position, just above Cambodia and Nepal. Further, the 3.8% growth rate was lower than that achieved by India and Sri Lanka, thus widening the productivity gap over time.

FIGURE 1.8

LABOR PRODUCTIVITY LEVEL PER WORKER



Source: Bangladesh National Productivity Master Plan FY2021–2030 [6].

TABLE 1.4

PERCENTAGE OF FORMAL AND INFORMAL EMPLOYEES

Year	2006	2010	2013	2016	2017	2022*
Informal (%)	87.60	87.50	87.40	86.20	85.10	84.88
Formal (%)	12.40	12.50	12.60	13.80	14.90	15.12
Total employer person (million)	47.35	54.46	58.07	59.53	61.53	62.61
Productivity (BDT)	113,279.81	165,657.93	240,160.65	348,701.7	515,272.13	563,837.21

*Estimated.

Percentages of both formal and informal employee appear in Table 1.4, which also estimated for 2022.

TABLE 1.5

FORMAL AND INFORMAL EMPLOYEES IN NUMBER AND LABOR PRODUCTIVITY

Year	2006	2010	2013	2016	2017	2022*
GDP	9,021,731	13,946,129	20,758,212	31,704,694	35,301,848	84.88
Informal employee (million)	47.35	50.77	51.33	51.73	51.78	15.12
Labor productivity (informal) (BDT)	190532.86	274670.68	404414.89	612840.57	681766.09	62.61
Formal employee (million)	6.79	7.30	8.20	9.09	9.21	563,837.21
Labor productivity (formal) (BDT)	1,329,266.39	1,910,690.37	2,531,180.59	3,486,330.99	3832991.10	62.61

Source: LFS 2006, 2010, 2013, 2016–17, Bangladesh Bureau of Statistics (BBS); [5, 7–9].

*Estimated: Percentages of both formal and informal employee appear in Table 1.4, which also estimated for 2022.

Table 1.5 illustrates the increasing number of employees in both informal and formal sectors annually as well as the corresponding GDP figures. The figure for informal and formal employees are estimated in 2020 and 2022. Informal sector accounted for larger portion of the total gross value added in these years while labor productivity in the formal sector surpasses that in the informal sector. The number of employees has increased in formal sector as initiatives were focused on the formalization of workers' salary, working process, and meeting buyers' requirements. However, there is also a rise in the new informal employment that emerged due to lack of awareness or the need to quickly fill urgent market demands. The productivity gap between formal and informal sectors, which was previously around six times earlier, is gradually decreasing over time.

Reasons of Low Productivity in the Informal Sector

In Bangladesh, several factors contribute to significantly lower productivity in the informal sector. These factors are related to the economy's structure, labor market and educational policies, business conditions, management of people in informal enterprises, and the psychological characteristics of informal employees. Low productivity in the workplace is not uncommon.

The most common reasons for low productivity levels in this sector include multitasking, workplace stress, lack of a sense of belonging, lack of recognition, toxic workplace behavior, poor management, long working hours, low pay, difficult working conditions, low job security, high turnover rates, and low job satisfaction. Additional factors include inadequate social security regulations, unfavorable work environments, limited training and career development opportunities, ineffective recruitment and onboarding processes, issues with compensation, performance management, unjust pay structure, lack of employee wellness initiatives, and poor workplace ergonomics.

According to those concerned, the following are the main reasons behind Bangladeshi workers' low productivity.

- Lack of training and low wage
- Lack of nutritious food
- Unhealthy living conditions
- Lack of proper working environment for workers

INITIATING EFFECTIVE STRATEGIES

In Bangladesh, the labor force is growing at a much faster rate than employment opportunities in the formal sector. Therefore, the problems of rising unemployment and underemployment remain high on the development agenda. Although the informal and modern economic sectors are closely intertwined with forward and backward linkages, the organized sector in Bangladesh has never provided a large employment base.

The formal sector employment has shown minimal growth in recent years. Most of the new jobs in recent years have been generated in the informal sector. The changing concept of employability requires an innovative approach to education, training, and skill development for the informal sector.

To address these challenges, the following initiatives should be taken immediately: (i) policy formulation for the overall development of the informal sector; (ii) establish an information hub and coordination platform; (iii) develop a skills development plan for the industry that are aligned with the national policies; (iv) conduct more research on present and future demand of skills in various existing and new occupations; and (v) develop skills competency standards and qualifications based on the National Technical and Vocational Qualification Framework (NTVQF) for each occupation or any new occupation (e.g., beautification, block batik and screen printing, embroidery, television servicing, jute bag and paper box making, mobile phone servicing, agricultural small machinery producing, housekeeping, poultry rearing and farming, boat and furniture making, printing, handloom, candle making, bee cultivation, motorcycle repairing, car washing, carpeting, welding and refrigeration, small electric and electronics mechanic producing and repairing, and so on). Further initiatives are also to establish linkages between training institutes and industries to facilitate the transition from informal to formal activities, ensure delivery of training programs by accredited organizations as per industry norms and standards, and promote entrepreneurship and decent works conditions.

Based on the discussion, the following indicators should be considered to significantly transition the informal labor force to the formal sector:

- Develop more domestic and large-scale industries
- Expand diversified export industries
- Reduce import dependency
- Increase FDI inflow
- Eradicate donation and bribes
- Implement effective government policy in Technical Vocational Education and Training (TVET)
- Proper evaluation of merit through fair recruitment
- Eliminate quota system in recruitment
- Create strong linkages between Technical Vocational Education (TVE) and industry
- Eliminate and simplify complicated business process

In order to effectively plan for the transition of the informal sector, it is crucial to have a comprehensive, detailed, and up-to-date economic data on the state mechanisms and circumstances of the informal enterprises. Data collection on the following issues are required in planning policies for the best utilization of the informal sector:

- Collate the latest number of workers employed in the informal sector
- Detail the prevalence of workers in the informal sector compared to the formal sector
- Characterize the socioeconomic profile of the workers engaged in the informal sector
- Identify reset skills and required skills needed by the formal sector

POLICY DILEMMA

The introduction to the 1991 report to the International Labour Conference, issues and challenges on the Productivity performance of the informal sector in selected apo membersd "The Dilemma of the Informal Sector", provided a concise definition by the Director-General of ILO: "The dilemma, put simply, is whether to promote the informal sector as a provider of employment and incomes; or to seek to extend regulation and social protection to it and thereby possibly reduce its capacity to provide jobs and incomes for an ever-expanding labour force". This sums up the current scenario of the informal sector in Bangladesh. The dilemma surrounding the contribution and impact of the informal sector is widespread. As the ILO report observed, "The challenge to policy-makers is to attempt to maximize both the employment creating potential of the informal sector and the degree of social protection and regulation extended to it".

The relationship between productivity and employment is a two-way traffic. Higher productivity and utilization of manpower potentiality are necessary for sustainable development and growth. The Bangladesh government puts emphasis on industrial development through the formulation of industry-friendly policies. The Ministry of Industries has been working tirelessly in formulating policies and implementing strategies to expand the country's industrial sector and position Bangladesh as an industry-based high-middle-income country by 2031 and developed nation by 2041. As per the National Industrial Policy, the new trend of industrialization has been initiated in the country. By implementing these policies, Bangladesh plays an optimistic and positive role in its economy by accelerating progress across all sectors.

LIMITATIONS

Several limitations were encountered during the preparation of this report. They are outlined as the following:

- i) Difficulty in obtaining responses as respondents were unwilling to share information on the questionnaires related to salary and wages in different employment categories.
- ii) The LFS conducted by the BBS is not published annually, resulting in gaps and lack of updated information on productivity in informal sector as well as on employment, employees, and wages in different sectors.
- iii) Formal and informal employees can be found in various publication by the BBS, however the GDP contribution by informal and formal employee are not measured.

CONCLUSION

In any economy, including developed, least developed, or welfare states, it is not possible to eliminate the informal sector due to its nature and history. Specific informal employment, such as individual family farming, traditional crafts, and street vendors, will always exist. Therefore, the transition strategy for all informal sectors into formal sectors is neither possible nor realistic.

In the case of Bangladesh, the range of the informal sector is extensive where the workforce faces a lot of discrimination, social insecurity, vulnerability, and an indecent livelihood, along with unemployment, underemployment, and injustice in society. Therefore, it is crucial for the country to take necessary steps to increase formal employment opportunities and address these challenges. The recommendations in this paper can guide policymakers in the public and private sectors to achieve this goal and create a better future for the upcoming generation to enjoy better employment opportunities and decent life.

The role of the informal sector is widely recognised in the development process of developing countries. As the informal sector represents a significant and growing share of employment in most developing countries, and a large majority of the poor depend on these activities for their livelihood, any effective strategy to reduce poverty must address this sector.

For a country like Bangladesh, which looks for means and ways to improve its poverty situation, entrepreneurs in the informal economy can contribute to prosperity for all. On a macro level, street enterprises tend to concentrate in densely populated areas, particularly in areas where the concentration of public functions is high. On a microscale, street enterprises are highly responsive to demand sources, supply sources, and location of their home. The government, policymakers, donors, NGOs, and other relevant organizations need to consider and address the noninstitutional barriers effectively.

The integrated approaches are important to overcome the noninstitutional barriers by creating awareness, implementing motivational programs, developing sound business plans, and providing combined external support. Since microentrepreneurial movements and capacity building are essential for long-term economic and social development of the informal sector in Bangladesh, an integrated approach must be deployed as soon as possible. Policymakers must critically evaluate this complex, double-edged nature of the informal sector and adopt appropriate measures to ensure sustainable growth by creating decent livelihoods within Dhaka city and across Bangladesh.

CHAPTER 2

CAMBODIA

EXECUTIVE SUMMARY

With peace and political stability, Cambodia enjoyed strong economic growth of 7.7% in the last decade, prior to the COVID-19 pandemic. The robust growth was contributed mainly by the industry and service sectors as a young population country in recent years. Employment and the share in GDP of these two sectors have also gradually increased.

Like other developing countries, employment in Cambodia is highly concentrated in the informal sector and it is a significant contributor to the economic productivity. However, along with the economic structural transformation due to the inflow of FDI in new and more productive sectors, the share of informal employment gradually decreased from 90.3% in 2012 to 83.2% in 2019, but sees an increase with the age of the workforce. Including the agriculture sector, the informal employment for the workforce in the age group between 24 and 34 years old was 85% while the age group between 55 to 64 years old stood at 92.2%. Informal employment was present in all sectors with different rates of informality. The highest rate of informal employment was in the construction sector (97.2%), followed by accommodation and food service activities (95.2%). With high informality, the productivity growth rate in these economic activities was also low. For instance, the productivity in the construction sector increased by only 1.7% between 2017 and 2021 while in the manufacturing sector with a relatively lower share of informal employment, the productivity growth rate was 4.3% during the same period. In addition, when generally compared to the formal sector, the informal sector paid lower wage (the informal-to-formal wage ratio was 62.7% in 2019), and this reflected the lower productivity and the sector's capacity to pay. Along with these issues, enterprises operating in the informal sector also faced other challenges, such as difficulty accessing finance and getting supports and incentives from the government.

By understanding the key roles and challenges of informal sectors, the government has implemented several policies to support businesses in the informal sector and facilitate the transition from the informal to the formal sectors. This includes launching a new online business registration process, providing skills training, and expanding social security coverage, among others. These policies are still relevant and some of them are new. Thus the implementation, monitoring, and evaluation mechanism need to be strengthened to achieve the government's main objectives to improve Cambodia's economic productivity, moving the country from a lower-middle-income to an upper-middle-income country by 2030 and to a higher-income country by 2050.

INTRODUCTION

Socioeconomic Overview

Cambodia has adopted the economic system based on the principles and mechanisms of the market economy. This system aims to serve the interests of the people at all levels and ensure that they can live with dignity and prosperity. Through the continuous economic transformation and open policies in all

sectors, Cambodia has attracted large capitals since the mid-1990s through private investments, including domestic investments and foreign direct investment (FDI). The country has expanded international trade through bilateral and multilateral agreements and established free trading system with many countries, regionally and globally, becoming a driving force for economic growth in the last two to three decades.

Due to these efforts that took place between 2000–19, Cambodia enjoyed stable and fast economic growth with an annual growth rate of 7.7%, which made the country the fastest growing in the world. Achieving this growth rate allowed the country to reach the status of a lower-middle country in 2015, and set its goal to become an upper-middle-income country by 2030 and a high-income country by 2050. However, in 2020, COVID-19 posed unprecedented challenges to the global economy, and Cambodia was no exception. Its export-oriented manufacturing sectors were affected by reduced demand in the United States of America (USA) and European markets while the tourism sectors suffered greatly due to the sharp drop in international tourists that led to the closure of many tourism-related businesses in Cambodia. Consequently, Cambodia's economy contracted by 3.1% in 2020.

With a timely and proactive response, Cambodia effectively controlled the transmission of COVID-19 by achieving high vaccination rates and full community immunity, allowing for full economic recovery by the end of 2021. The economy managed to bounce back and grow by 3.0% in 2021. It is expected to grow further by 5.4% in 2022 and 6.6% in 2023. The garment and nongarment industries, particularly the export-oriented sectors have the fastest recovery, but the tourism-related sectors, such as hotels and restaurants, wholesale, and retail saw a slow recovery [1].

TABLE 2.1

ECONOMIC GROWTH BY SECTORS AND YEARS IN 2021–23

Sector	2021	2022p	2023p
GDP Growth Rate	3.0%	5.4%	6.6%
1 Agriculture	1.1%	0.7%	1.1%
1.1 Crops	2.6%	1.4%	1.6%
1.2 Livestock and poultry	-2.4%	-0.5%	0.6%
1.3 Fisheries	2.2%	1.0%	1.0%
1.4 Forestry and logging	-0.8%	-1.5%	-1.4%
2 Industry	8.6%	9.0%	9.2%
2.1 Garment	10.8%	10.5%	8.1%
2.2 Construction	1.1%	3.0%	7.2%
2.3 Nongarment	13.9%	12.2%	13.3%
3 Service	-1.9%	4.3%	6.6%
3.1 Hotel and restaurant	-39.5%	16.5%	23.4%
3.2 Wholesale and retail	1.6%	4.3%	6.7%
3.3 Real estate	0.5%	2.5%	5.2%
3.4 Transportation and communication	2.8%	6.1%	7.1%

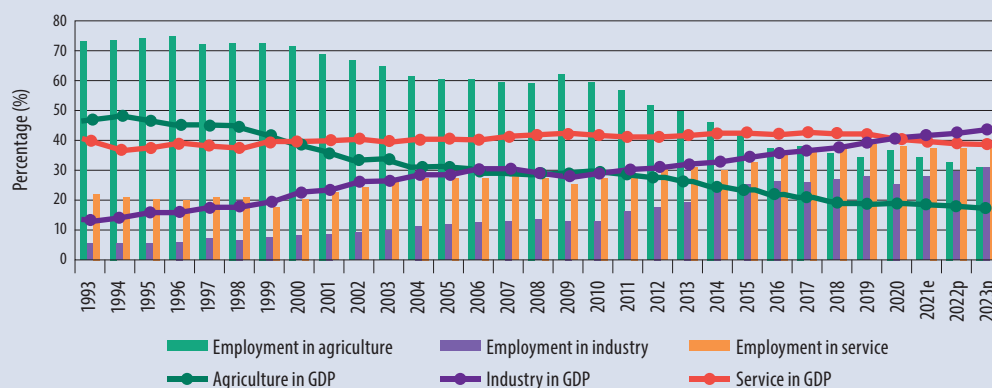
Source: Ministry of Economy and Finance, 2022 [1].

Historically, Cambodia's economic growth is driven by the agriculture sector, which contributed around 50% of GDP and employed around 73% of total employment in 1993. However, the contribution of this sector has gradually decreased, reaching 20.2% in 2021 and lower at 19.4% in 2022. Employment in agriculture has also dropped to around 30% in 2021 and 2022 [2].

In contrast, the industrial sector played an increasingly important role in GDP contribution due to the growth of labor-intensive manufacturing, such as garment, travel goods, and footwear industries since the 1990s. The contribution of this sector has expanded from a very small proportion in 1993 to 45.4% in 2021 and rose to 46.4% in 2022. The share of employment in this sector also increased from around 5% in 1993 to around 38% in 2021 and 2022 [2].

FIGURE 2.1

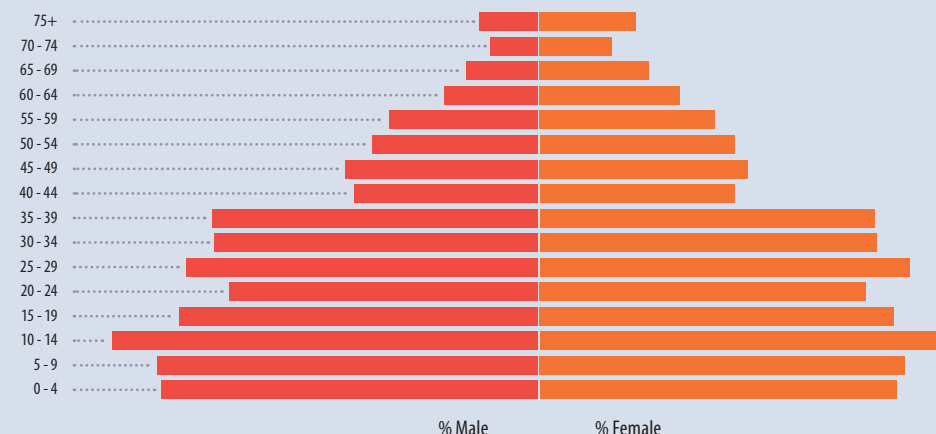
CONTRIBUTION TO GDP AND EMPLOYMENT SHARE BY ECONOMIC SECTOR IN 1993–2023P



Source: Ministry of Labour and Vocational Training's estimation in staff, 2022 [2].

FIGURE 2.2

CAMBODIA'S POPULATION PYRAMID IN 2019

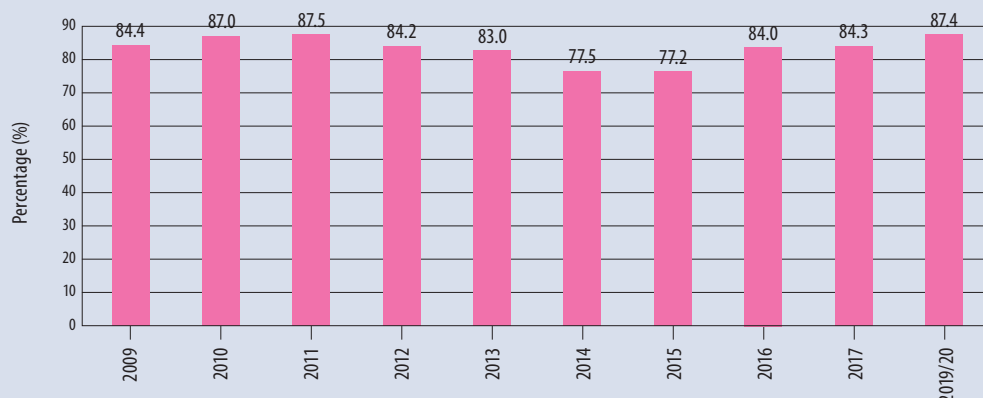


Source: General Population Census, National Institute of Statistics (NIS), 2019 [3].

Labor Market and Employment

The promising growth of Cambodia's economy in the last decades was also contributed by demographic dividend as 72.5% of its total population were aged 39 and below and the youth of 15–34 years old were 34.7% of the total population [3]. This young population has the potential to contribute to Cambodia's development by boosting economic productivity.

In addition to the young population, Cambodia also has a large and ready supply of labor to engage in the production of goods and services in the country. This is reflected by a high labor force participation rate that fluctuated from around 77% to 87% between 2009 and 2020 [4].

FIGURE 2.3**LABOR FORCE PARTICIPATION RATE IN 2019/20**

Source: Cambodia Socio-Economic Survey 2009 for 2019/20 [4].

The majority of the employed population were employees, who are defined as persons who work for public or private employers and receive remuneration in wages, salary, commission, tips, piece rates, or pay in kind. Employees, regardless of formal or informal status, are divided into regular paid employees with fixed wages, casual paid employees, workers paid by piece rate or work performed, and paid nonfamily apprentices. Table 2.2 shows that the share of employees or wage earners increased from 46% in 2012 to 47.8% in 2019. Interestingly, the share of female wage earners substantially increased from 39.9% to 43.1% in the same period. This indicates that the quality of employment, including working conditions has improved [5–6].

TABLE 2.2**EMPLOYED POPULATION BY EMPLOYMENT STATUS**

Employment Status	2012			2019		
	Both Genders	Male	Female	Both Genders	Male	Female
Numbers within Each Category						
Employees	3,312,644	1,956,686	1,355,958	3,770,515	2,144,933	1,624,582
Employers	28,455	17,931	10,524	269,820	166,568	103,252
Own-account workers	2,415,194	1,307,900	1,107,293	2,908,447	1,522,565	1,385,883
Contributing family workers	1,439,847	514,398	925,449	935,324	283,399	651,925
Total (numbers)	7,197,416	3,797,706	3,399,710	7,883,106	4,117,464	3,765,641
Percentages within Each Category						
Employees	46.0	51.5	39.9	47.8	52.1	43.1
Employers	0.4	0.5	0.3	3.4	4.1	2.7
Own-account workers	33.6	34.4	32.6	36.9	37.0	36.8
Contributing family workers	20.0	13.5	27.2	11.9	6.9	17.3
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

Source: Labour Force Survey 2012, 2019 [5–6].

At the same time, the share of the employed population classified as contributing family workers who work without pay decreased from 20% to 11.9% while the share of own-account workers and employers increased from 0.4% to 3.4% and from 33.6% to 36.9%, respectively [5–6].

LITERATURE REVIEW ON INFORMAL ECONOMY

Landscape of Informality and Transition Strategy to Formality

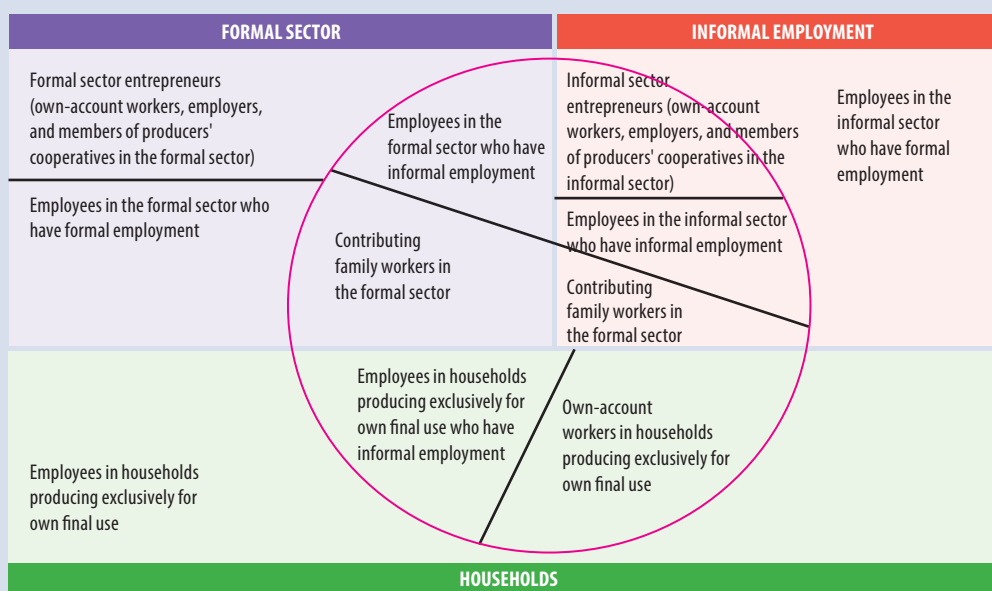
Informal sector is not a new concept. The term was coined in the 1970s by defining the activities that were not included in laws and relevant regulations. It served as a descriptive definition, rather than a formal or statistical one. In 1991, the ILO provided a descriptive definition of the informal sector as “the sector that is made up of small-scale economic activities, consisting of self-employed persons who hire family labor or a few workers.” This definition also encompassed activities with small capital, low levels of technology, and limited access to formal institutions and markets.

In 1993, at the 15th International Conference of Labour Statisticians (ICLS), the first-ever statistical concept of the informal sector was adopted based on the concept of informal sector enterprises. This meant that employment in the informal sector was defined as all jobs in the small scale and/or unregistered private unincorporated enterprises that produce services and goods for trade or sale [7].

There were some criticisms over the definition adopted by the 15th ICLS. One among others was that the definition failed to capture the emergence of new and various forms of informal employment. Further, the concept of “employment in the informal sector” is different from “informal employment”. Thus in the 17th ICLS, the definition of informal employment was adopted by linking the enterprises-based definitions in the 15th ICLS to a broader job-based definition of informal employment [8].

FIGURE 2.4

17TH ICLS GUIDELINE ON THE COMPONENTS OF INFORMAL EMPLOYMENT

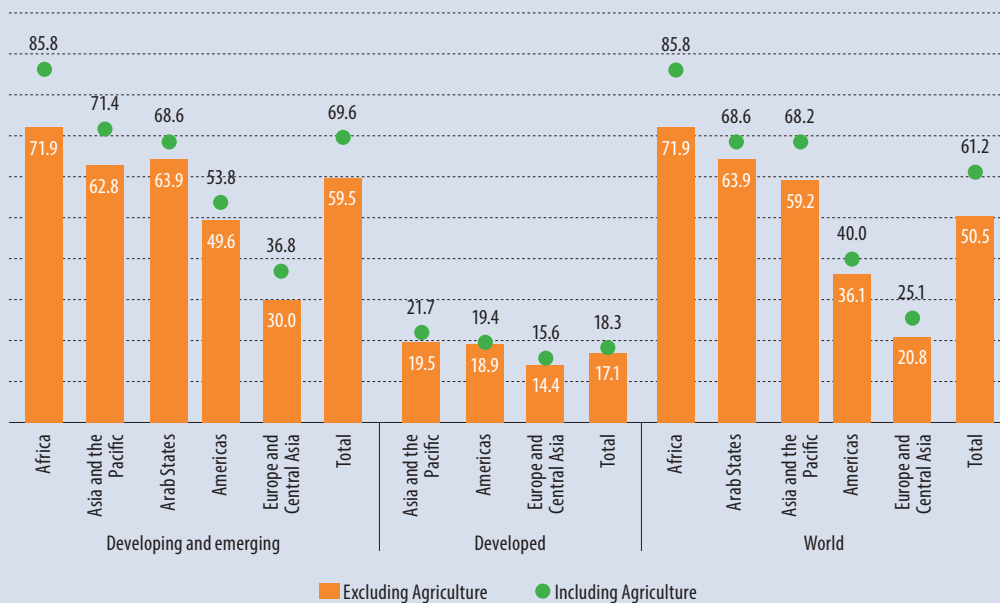


Source: Measuring informality: A statistical manual on the informal sector and informal employment, ILO, 2013 [8].

With about 2 billion workers in informal employment globally (61.2% of the world's employed population), it is a prevalent occurrence across the world regardless of the level of socioeconomic development. However, it is far more widespread in developing and emerging countries. In developed countries, the share of informal employment ranged from 15.6% to 21.7% but in contrast to developing and emerging countries, the rate is significantly higher, reaching up to 85.5% in Africa and 71.4% in the Asia-Pacific [9].

FIGURE 2.5

INFORMAL EMPLOYMENT BY COUNTRY GROUPS AND WORLD IN 2016



Source: Promoting employment and decent work in a changing landscape, ILO, 2020 [9].

FIGURE 2.6

INTEGRATED STRATEGY FOR DECENT WORK



Source: Report VI: Employment policies for social justice and a fair globalization, ILO, 2010 [10].

Employment in the informal sector usually entails poor working conditions, low or/and unstable income, and low productivity. Therefore, it is crucial to promote the creation of decent and formal employment for the employed population. In this regard, the ILO sets a decent work strategy for developing countries to facilitate the transition from informal to formal settings. This strategy employs an integrated and comprehensive approach, involving many policy areas that will be able to mitigate the negative impact of informality in the labor market while keeping job creation and income generation, as shown in Figure 2.6. Developing countries can adopt these policy areas by establishing output indicators that align with their national and local contexts. Improving income, productivity, and working conditions are the overarching goals of this integrated strategy or policy area.

Informal Sector and Informal Employment in Cambodia

As discussed in the previous section, many developing countries, including Cambodia, have a large share of informal sectors which consist of less productive firms and low-paying jobs. However, the definition of the informal sector may vary in accordance to the country's context. In the case of Cambodia, the Labour Force Survey (LFS) 2019 report defined the informal sector as “all workers in enterprises that are not registered with the relevant authorities, and do not keep a complete set of accounts. It excludes households that produce exclusively for their own final use, subsistence agriculture, the construction of own dwellings, etc.”. Informal employment in the country includes employers and own-account workers in informal sector enterprises, contributing family workers, and employees and paid apprentices or interns who do not have paid annual leave or sick leave benefits, and social security contributions from their employers [5]. The report derives this population as a residual of the total number of employed persons and those in formal employment.

According to this defined definition, 81.2% of the employed population worked in informal enterprises while only 17.7% of them worked in formal enterprises in 2012 [5]. By looking at the statistics in 2019, it showed a trend of employment shifting from the informal to the formal sector. In 2019, the percentage of the employed population worked in informal sector enterprises decreased to 77.4%, marking a 3.8% decline from 2012. On the other hand, the percentage of the employed population working in formal sector enterprises increased to 21.5%, charting a 3.8% increase during the same period. The number of workers in the household sector did not show any significant change [5–6]. The findings suggest that more enterprises are shifting from the informal to the formal sector, or newly established enterprises are in the formal sector, as it is recognized to have higher added value and higher productivity.

TABLE 2.3

EMPLOYED POPULATION IN THE INFORMAL AND FORMAL SECTORS IN 2012–19

Sector	2012			2019		
	Both Genders	Male	Female	Both Genders	Male	Female
In Number						
Informal sector enterprises	5,845,356	3,046,084	2,799,271	6,104,981	3,190,956	2,914,025
Formal sector enterprises	1,276,331	733,571	542,761	1,692,374	887,730	804,644
Household sector	75,729	18,051	57,678	85,751	38,779	46,972
Total	7,197,416	3,797,706	3,399,710	7,883,106	4,117,464	3,765,641
In Percentage (%)						
Informal sector enterprises	81.2	80.2	82.3	77.4	77.5	77.4
Formal sector enterprises	17.7	19.3	16.0	21.5	21.6	21.4
Household sector	1.1	0.5	1.7	1.1	0.9	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: LFS 2012, 2019 [5–6].

When examining the data by gender, it shows that more women are moving from informal to formal sector enterprises. In 2012, 82.2% of women worked in the informal sector, which decreased to 77.4% in 2019. Concurrently, the number of employed female workers in formal enterprises increased from 16% to 21.4% during the same period [5–6].

As shown above, the majority of the employed population in Cambodia worked in informal employment while only a small percentage had formal employment. This highlighted two important points. First, informal employment plays a crucial role in economic productivity. Second, government interventions should continue to focus on promoting decent work for those in informal employment and assist in transitioning them into the formal sector. Between 2012 and 2019, the trend was more encouraging with more employed population moving from informal to formal employment. In the nonagriculture sector, informal employment was at 60.2% and dropped to 55.6% in 2019. This trend reflects that the employed population tend to be more productive, although the number of informal workers remains high [5–6].

TABLE 2.4

EMPLOYED POPULATION IN INFORMAL AND FORMAL EMPLOYMENT IN 2012–19

Sector		2012	2019
		Number	
Nonagriculture sector	Informal employment	4,336,370	4,384,784
	Formal employment	467,882	885,772
Agriculture sector		2,393,164	2,612,551
Total		7,197,416	7,883,106
		Percentage (%)	
Nonagriculture sector	Informal employment	60.2	55.6
	Formal employment	6.5	11.2
Agriculture sector		33.3	33.1
Total		100.0	100.0

Source: LFS 2012, 2019 [5–6].

Detailing by economic activities, in 2019, informal employment in the service and industry sectors was at 61% and 39%, respectively. Certain economic activities employed more informal workers than others. For instance, in construction, 97.2% of employment was informal while wholesale and retail trade, and repair of motor vehicles and motorcycles had 94.2%. Informal employment for accommodation and food service activities was at 95.2%. There were several sectors with low percentage of informal employment, such as public administration and defense, compulsory social security (55%), education (55.4%), financial and insurance activities (61.6%), and manufacturing (70%). These sectors are either government agencies or relatively well-structured operations.

When distributed by age groups, the results show that the proportion of informal employment increases with higher age groups. This could be attributed to lower education among the older group who tend to be employed in informal sectors. The lowest rate of informality is observed in the 24–34 age bracket whose probability are higher to be fresh university graduates or junior employees who are likely to find relatively better jobs.

Informal employment in the rural area was higher than the national average, particularly due to the considerable needs of the agricultural sector (Figure 2.5). In urban areas, informal employment account for 85%. The employment in the urban areas are often in construction, accommodation and food service activities, and wholesale and retail trade. This is reflected in Table 2.5, showing that 98.6% of employees working in agriculture were informal, followed by construction (97.2%), and accommodation and food service activities (95.2%).

TABLE 2.5

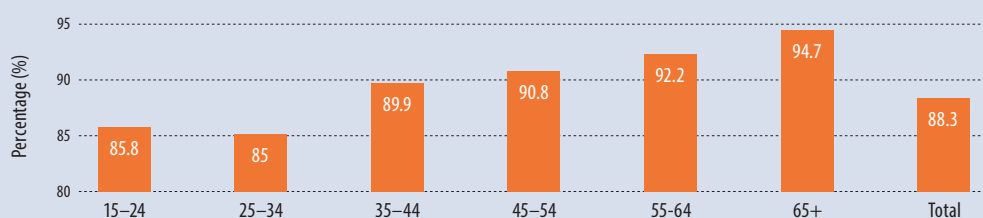
INFORMAL EMPLOYMENT BY ECONOMIC ACTIVITIES IN 2012–19

Industry	Number		Percentage	
	2012	2019	2012	2019
Industry	1,771,286	1,711,895	40.8%	39.0%
Mining and quarrying	27,767	6,208	97.3%	95.0%
Manufacturing	1,224,634	920,826	97.7%	70.0%
Electricity, gas, steam, and air conditioning supply	18,513	8,052	74.7%	83.3%
Water supply; sewerage, waste management, and remediation activities	17,591	13,317	80.0%	84.9%
Construction	482,781	763,492	99.1%	97.2%
Service	2,565,068	2,672,889	59.2%	61.0%
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,219,062	1,242,892	96.8%	94.2%
Transportation and storage	380,328	344,929	98.9%	94.5%
Accommodation and food service activities	321,548	256,638	98.9%	95.2%
Information and communication	21,651	21,911	95.8%	83.7%
Financial and insurance activities	43,337	70,373	91.5%	61.6%
Real estate activities	18,665	20,459	87.3%	81.4%
Professional, scientific, and technical activities	15,533	45,281	70.5%	74.7%
Administrative and support service activities	90,164	151,084	97.5%	85.4%
Public administration and defense; compulsory social security	101,663	156,551	34.4%	55.0%
Education	56,939	101,328	32.1%	55.4%
Human health and social work activities	38,051	33,260	56.2%	51.4%
Arts, entertainment, and recreation	81,775	67,246	94.5%	88.0%
Other service activities	114,430	123,795	96.9%	94.0%
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	41,386	32,178	96.2%	94.7%
Activities of extraterritorial organizations and bodies	20,536	4,964	83.0%	66.4%
Total	4,336,370	4,384,784	90.3%	83.2%

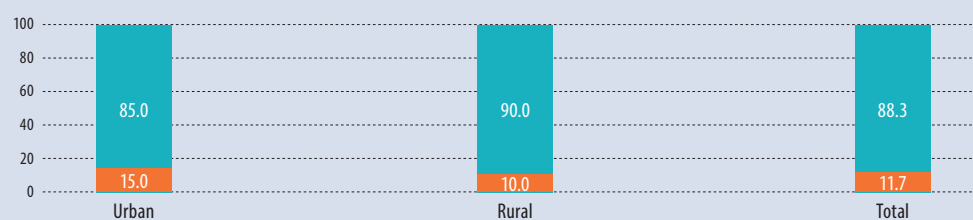
Source: LFS 2012, 2019 [5–6].

FIGURE 2.7

INFORMAL EMPLOYMENT BY AGE GROUP IN 2019

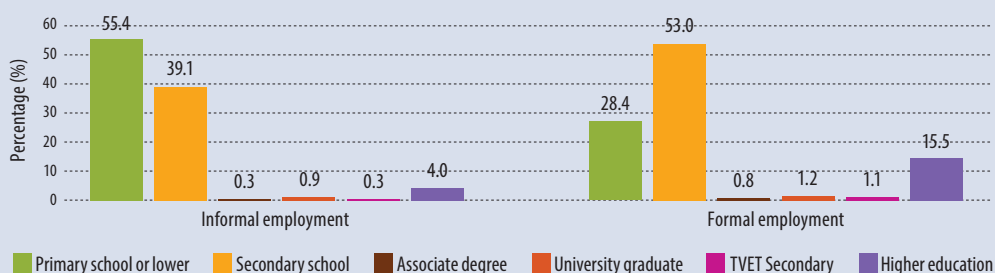


Source: LFS, 2019 [6].

FIGURE 2.8**INFORMAL AND FORMAL EMPLOYMENT BY AREA IN 2019**

Source: LFS, 2019 [6].

The majority of the workforce in the informal sector had only primary school education or lower (55.4%) whereas in the formal sector, 28.4% of the workforce had the same level of education. Conversely, 15.5% of the formal workforce had higher education compared to only 4% in the informal sector. This implies that workers in informal employment tend to have lower education, which may contribute to lower wages and productivity.

FIGURE 2.9**INFORMAL AND FORMAL EMPLOYMENT BY EDUCATION LEVEL IN 2019**

Source: Author's estimation based on LFS, 2019 [6].

By occupations, given Cambodia is still an agricultural country, a large segment of informal employment consists of skilled agricultural, forestry, and fishery workers (98.6%), followed by elementary occupations which were mostly in rural areas (94.8%), and services and sales workers (92.6%). Occupations with the least informal employment include professionals (60.2%), technicians and associate professionals (70.3%), and clerical support workers (73.8%). These occupations typically work in formal enterprises.

TABLE 2.6

INFORMAL AND FORMAL EMPLOYMENT BY OCCUPATIONS IN 2019

Occupation	Informal Employment	Formal Employment	Total
Managers	63.2	36.8	100.0
Professionals	60.2	39.8	100.0
Technicians and associate professionals	70.3	29.7	100.0
Clerical support workers	73.8	26.2	100.0
Services and sales workers	92.6	7.4	100.0
Skilled agricultural, forestry, and fishery workers	98.6	1.4	100.0
Craft and related-trades workers	80.1	19.9	100.0
Plant and machine operators, and assemblers	92.1	7.9	100.0
Elementary occupations	94.8	5.2	100.0
Total	88.3	11.7	100.0

Source: LFS 2012, 2019 [5–6].

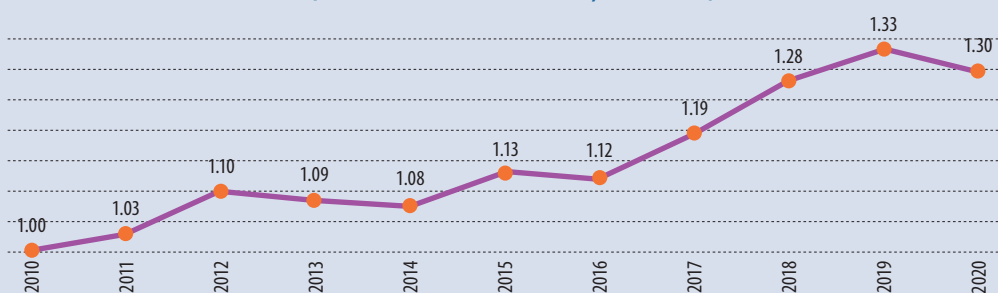
EMPIRICAL ANALYSIS

Labor Productivity in the Economy

The labor productivity in Cambodia has been steadily increasing and contributed to the high GDP growth rate over the last two decades. Data from the Asian Productivity Organization (APO) showed that the labor productivity index, based on hours of work, increased from 1.00 in 2010 to 1.33 in 2019, indicated a growth of approximately 33% over the last 10 years. In 2020, the index dropped to 1.30, likely due to the COVID-19 pandemic that disrupted the economic activities in the country [11]. However, with the signs of economic recovery, labor productivity is expected to rebound and increase by around 2.7% between 2020 and 2025 [12].

FIGURE 2.10

LABOR PRODUCTIVITY INDEX (BASED ON HOURS WORKED, 2010=100)



Source: APO Productivity Database 2022 [11].

The agricultural sector employs the highest number of informal employees, as shown in Table 2.5. The sector's productivity growth is at a declining rate, falling from 8.4% between 2012–16 to 1.7% between 2017–21. The decline in productivity growth rate in the agricultural sector implies that many workers

have transitioned from agriculture to the more productive industry or/and service sectors. While they may have shifted from informal to either informal or formal employment in the new sector, the challenge remains due to their limited skills. Likewise, in the construction sector that had a large share of informal employment, the productivity growth rates were very small at 1.9% between in 2017–21, and recorded a negative growth rate for hotels and restaurants by -10% during the same period. In contrast, sectors with relatively high levels of formal employment, such as manufacturing, experienced an increase in productivity growth rate from -1.3% between 2012–16 to 5.6% from 2017–21.

TABLE 2.7**PRODUCTIVITY GROWTH RATE BY ECONOMIC ACTIVITY IN 1997–2021P**

Economic Activities	1997–2001	2002–06	2007–11	2012–16	2017–21
Agriculture	0.9%	4.7%	2.3%	8.4%	1.7%
Industry	3.6%	3.6%	-2.9%	-1.4%	5.6%
Mining	2.4%	20.5%	1.5%	25.1%	8.9%
Manufacturing	5.7%	3.3%	-1.4%	-1.3%	4.3%
Construction	2.2%	1.5%	2.4%	-10.0%	1.9%
Utilities	-6.5%	-1.1%	-10.4%	15.2%	5.9%
Service	1.7%	2.1%	2.6%	-0.1%	0.8%
Trade	-2.5%	-3.0%	5.9%	3.7%	1.7%
Hotel & restaurants	2.8%	2.5%	-4.8%	-7.4%	-10.0%
Transport & Communications	-3.8%	-2.4%	4.7%	-1.6%	5.6%
Finance	-0.8%	20.5%	-5.0%	-4.6%	-5.7%
Public administration	-0.4%	-2.7%	7.6%	-2.2%	8.1%
Real estate & business	6.6%	-1.5%	-19.4%	-0.8%	2.5%
Other services	8.1%	11.5%	7.4%	-2.5%	-0.5%

Source: Author's estimation based on National Account Database, 2022 [13] and Employment Projection by the Ministry of Labour and Vocational Training, 2022 [2].

The data from the World Bank Enterprise survey in 2012 showed that the productivity in formal firms was 13.4% higher than informal firms (USD5,648 versus USD4,980). The data also showed that formal firms were more capital intensive than informal firms (USD1,605 versus USD1,151) (Figure 2.11). This suggests that formal firms were able to use and invest more in equipment, machinery, and other vehicles, which may be the reason to formal firms' higher productivity [14].

FIGURE 2.11**LABOR PRODUCTIVITY AND CAPITAL INTENSITY OF FORMAL AND INFORMAL FIRMS (USD)**

Source: The World Bank, 2014 [14].

Besides capital, the differences in productivity between the formal and informal firms may also be due to other reasons, such as different economic sectors, location, skill level, ownership, and export orientation. By controlling these factors, the regression results indicate that the informal firms are 39% less productive in terms of total factor productivity compared to formal firms [14]. Among these factors, skill level is recognized as the main factor in improving labor productivity. While formal firms have more capital intensity, informal firms have to rely on higher labor intensity, which means employing relatively low-skilled labor forces at low wages.

Earnings in Informal and Formal Sectors

From a macroeconomic perspective, many models assume that workers do not value leisure and that the labor supply is vertical or perfectly inelastic. In this case, shocks in the productivity of workers will emerge one-for-one in wages [15]. Thus given the limited data in the informal sector, average wages can be a good proxy for labor productivity, especially in developing countries like Cambodia. In 2019, the average informal-to-formal wage ratio was 62.7% and it varied among different economic activities. For instance, in the industry sector, the ratio averaged at 89.2% while it was only 58.8% in the service

TABLE 2.8

AVERAGE WAGE IN INFORMAL AND FORMAL SECTORS BY ECONOMIC ACTIVITIES IN 2019

Industry	Informal Sector	Formal Sector	Informal to Formal Sector Wage Ratio
Agriculture, forestry, and fishery	173.0	221.1	78.2%
Agriculture, forestry, and fishery	173.0	221.1	78.2%
Industry	240.3	269.3	89.2%
Mining and quarrying	219.6	195.5	112.3%
Manufacturing	231.7	266.2	87.0%
Electricity, gas, steam, and air-conditioners	473.9	322.5	146.9%
Water supply; sewerage, waste management, and remediation activities	148.8	188.1	79.1%
Construction	245.0	307.6	79.6%
Services	224.2	381.2	58.8%
Wholesale and retail trade; repair of motor vehicles and motorcycles	210.0	320.8	65.5%
Transport and storage	236.1	324.9	72.7%
Hotels and restaurants	198.1	266.6	74.3%
Information and communications	260.8	396.9	65.7%
Financial and insurance activities	295.6	372.9	79.3%
Real estate activities	354.3	526.0	67.4%
Professional, scientific, and technical activities	329.6	456.6	72.2%
Administrative and support service activities	222.3	287.4	77.3%
Public administration and defense; compulsory social security	177.5	465.1	38.2%
Education and training	320.6	327.9	97.8%
Human health and social work activities	203.7	395.0	51.6%
Arts, entertainment, and recreation	283.2	378.9	74.7%
Other service activities	176.2	317.9	55.4%
Activities of extraterritorial organizations and bodies	273.7	299.1	91.5%
Total	207.9	331.3	62.7%

Source: Author's estimation based on LFS, 2019 [6].

sector [6]. This implies that the informal sector in the service industry had relatively lower productivity compared to the industry sector. Such patterns highlight that informality contributed to income disparities across countries. This may be due to the misallocation of labor and capital in less productive firms that leads to lower total factor productivity [16].

Looking at gender, the ratio of informal-to-formal sector wages for female workers (63.8%) was slightly higher compared to male workers (60.5%). Yet within the informal sector, females earned approximately 82% of the male counterparts' earnings, indicating a wage gap in this sector [6].

TABLE 2.9**AVERAGE WAGE IN INFORMAL AND FORMAL SECTORS BY GENDER IN 2019**

Gender	Informal Sector	Formal Sector	Informal to Formal Sector Wage Ratio
Male	223.7	369.6	60.5%
Female	183.3	287.2	63.8%
Total	207.9	331.3	62.7%

Source: Author's estimation based on LFS, 2019 [6].

In terms of occupation, all except managers, received lower wages in the informal sector compared to the formal one. For instance, the informal sector's enterprises paid only 47.5% of the monthly average wage to service and sales workers compared to the formal sector, which was the lowest informal-to-formal sector wage ratio. Further, the informal employment rate in this sector was high at 96.2% (Table 2.5). In contrast, managers in the informal sector received wages that were 9.7% higher than their formal sector counterparts. This is primarily due to higher pay in "hospitality, retail and other services" [6] that are considered competitive occupations where the demand for skilled candidates are higher.

TABLE 2.10**AVERAGE WAGE IN INFORMAL AND FORMAL SECTOR BY OCCUPATION IN 2019**

Occupation	Informal Sector	Formal Sector	Informal to Formal Sector Wage Ratio
Managers	360.9	329.1	109.7%
Professionals	358.7	362.6	98.9%
Technicians and associate professionals	322.1	357.1	90.2%
Clerical support workers	230.9	372.0	62.1%
Service and sales workers	189.0	397.9	47.5%
Skilled agricultural, forestry, and fishery workers	163.9	199.3	82.2%
Craft and related trades workers	238.1	262.6	90.7%
Plant and machine operators, and assemblers	281.1	298.1	94.3%
Elementary occupations	196.2	240.9	81.4%
Total	207.9	331.3	62.7%

Source: Author's estimation based on LFS, 2019 [6].

CHALLENGES OF INFORMAL SECTOR AND INFORMAL EMPLOYMENT

The large informal sector is usually associated with unfavorable macroeconomic and development outcomes.

First of all, the informal sector tends to hire workers with lower skills and education levels that results in lower wages compared to their formal counterparts. Similar to the observation of practices in other countries, even though the government has introduced several policies to support enterprises in the informal sector, the physical investment in this sector remains low. It suggests the informal firms are unwilling or reluctant to adopt technologies or scale up production. This may be due to the limited capacity to invest and the desire to keep a low profile to avoid tax and other authorities.

By definition, unregistered enterprises fall under the informal sector. As they are not registered, they receive less protection in the face of negative shocks compared to formal businesses. For example, during the COVID-19 crisis in 2020 and 2021, registered enterprises in the garment and tourism sectors received the government's wage subsidies, skills training (including soft skills), other employment services, and various tax exemptions when their operations were temporarily halted or contracts were suspended due to the pandemic. The unregistered enterprises and informal workers did not receive these benefits as the government faced difficulties in identifying and providing support them.

TABLE 2.11

CHALLENGES FACED BY INFORMAL ENTERPRISES AND INFORMAL WORKERS IN SELECT SECTORS IN 2023

Sectors	Target Groups	Challenges
Wholesale and retail trade	Online wholesale and retail sellers	i) Applying for an e-business license is still difficult, especially for people in remote provinces, such as: <ul style="list-style-type: none"> • Requesting for address certificate in villages, communes • Applying for a business license at the Department of Commerce • Traveling to apply for a permit or license at the Ministry of Commerce ii) In companies with an annual turnover of below KHR250 million, it is not necessary to apply for a license or business license electronically, but they must notify the Ministry of Commerce. However, many enterprises do not know how to measure or calculate turnover
	Market vendors	Many market vendors are concerned about high cost, including: <ul style="list-style-type: none"> • Must pay daily or monthly tax, rental service (varies by market) • Must pay annual patent tax (USD30) for stallholders (varies by market)
Tourism	Enterprise owners	i) Do not understand the enterprise registration process as well as the registration in social security scheme for employees ii) Overlapping of and uncertainties in compliance enforcement authorities (especially for microenterprises) with inspections by various ministries and institutions without publicity or prior notice iii) Balancing as well as expanding business is difficult due to the lack of capital and difficulties in obtaining bank loans
	Employees/workers	Not registered at the National Social Security Fund because: <ul style="list-style-type: none"> • Enterprise owners have to pay high contribution rate • There is a high turnover rate, so business owners do not want to pay contributions. Many workers work for only short periods of time as most workers are occasional workers (such as students and/or farmers from the provinces) • Some business owners do not care about employees • Do not know or understand the benefits of the social security scheme

Source: Ministry of Economy and Finance, 2023 [17].

One noteworthy factor stood out in this situation - most businesses stay informal because they have no or less knowledge of the benefits of formalization and the administrative process and requirements. Most informal sector enterprises are small and mostly fall into the micro, small, and medium-sized enterprises (MSMEs) category. These owners are usually unfamiliar with the idea of licensing their businesses, and most may have limited knowledge or understanding of the advantages of formalization, such as access to social protection scheme, etc. Some businesses may prefer to maintain a low profile as they are afraid of paying more for their operations, including unofficial fees [16]. Similar challenges were raised in a recent survey conducted by the technical team of the Ministry of Economy and Finance, as shown in Table 2.11 [17].

In addition to the aforementioned challenges, the main concern can be diminished when a significant portion of the economy is occupied by the informal sector and resources are available to boost productivity in formal firms. This is because formal firms will bear the cost of compliance with government regulations [18]. This concern is applicable to Cambodia's situation as well. According to the World Bank's enterprise survey conducted in 2016, 32% of formal enterprises confirmed that the practices of competitors in the informal sector were their biggest challenge, particularly for small-sized firms [19].

TABLE 2.12

ENTERPRISES IDENTIFYING COMPETITORS' PRACTICES IN THE INFORMAL SECTOR AS A MAJOR CONSTRAINT BY SECTOR AND FIRM SIZE

Sector	Percentage	Firm Size (number of workers)	Percentage
Manufacturing	29.7%	5–19	33.7%
Service	32.8%	20–99	24.7%
Retail	26.5%	100 +	26.7%
Other services	34.9%	All Sizes	32.0%
All Sectors	32.0%		

Source: Enterprise Survey, World Bank, 2016 [19].

GOVERNMENT POLICIES IN ADDRESSING CHALLENGES IN THE INFORMAL SECTOR

The Cambodian government has implemented several policies to address the challenges faced by the informal sector and promote the transition to formal employment. These policies also aim to support workers and enterprises in the informal sector to increase productivity and enhance living and working conditions.

National Policy Framework on Economic Productivity 2022–2035

This policy framework focuses on increasing economic productivity and income for all Cambodian citizens by ensuring sustainable and inclusive economic security and well-being. It sets out four main policy measures: (i) improve the technical vocational education and training system (TVET); (ii) encourage technology and innovation; (iii) develop the capacity of public institutions, including labor market institution and social protections agencies; and (iv) develop productivity infrastructure. These measures are expected to promote the productivity of both formal and informal workers. By equipping workers with better skills, they can get better jobs with higher salaries and improved working conditions, thereby serving as a bridge for workers to transition into the formal sector. One of the policy measures on “developing capacity of public institutions” is to improve labor market institutions, aimed at reducing skill mismatches, increasing productivity, investing in skill development, strengthening the implementation of

social protection, and encouraging the use of employment services. The success of these policy measures will contribute to increasing formal employment with higher productivity in the country [20].

National TVET Policy 2017–2025

To promote the transition from informal to formal employment, the government has implemented the National TVET Policy 2017–2025. This policy focuses on increasing the technical skills of the Cambodian workforce so that they can be employed in the formal sector [21]. The National TVET Policy 2017–2025 objectives include:

- i) **Increase enrollment in the TVET system by providing flexible pathways**
 - Improve access to TVET by developing and implementing Recognition of Current Competence (RPL) and Recognition of Prior Learning (RCC) based on Cambodia Qualifications Framework (CQF) as well as access through the skills assessment system
 - Expand TVET marketing programs at the workplace to highlight the economic benefits gained from improving skills
 - Extend the Voucher Skills Training Program (VSTP) and Skills Bridging Program (SBP) to enable school dropouts and active workforce to pursue further studies in the TVET system
 - Provide more scholarships for target groups, especially for women, to encourage them to enroll in TVET programs and also provide stipends for Skill Bridging Program linked to CQF level 2
 - Expand long-term training programs to TVET institutions to provinces and cities where these programs are not yet available
 - Encourage and support TVET graduates to become self-employed by introducing microfinance programs or providing microcredit
 - Develop and implement a Human Resource Training Program to mobilize skilled workforces within the region
- ii) **Design training curricula based on market needs to strengthen skills that are aligned to new and existing technologies**
 - Ensure that TVET institutions integrate entrepreneurship concepts in training programs to support self-employment

Legal Framework on Social Protection

The Cambodian government has implemented two main documents within the framework of social protection: the Law on Social Security Scheme 2019 [22] and the National Social Protection Policy Framework 2016–2025 [23].

The Law on Social Security Scheme was promulgated in 2019 and laid out the general principles, formalities, operational mechanism, and management of the social security system in Cambodia. It covers persons defined by the provisions of the labor law, irrespective of their formal or informal status. There are four main schemes in the law, consisting of pension scheme, health care scheme, working

injury scheme, and unemployment scheme. The law also allows nonregistered enterprises to register with the Social Security to ensure that informal workers can also benefit from the social security scheme.

The National Social Protection Policy Framework 2016–2025 also put in some measures to benefit informal workers, such as:

i) Implementing a pension scheme for nonpoor working in the informal sector

- The government’s vision is to provide social protection to all citizens upon reaching old age. An assessment will be carried out on the feasibility of operating a pension scheme for citizens working in the informal sector who are neither poor nor vulnerable, such as market vendors. International experiences show that operating a pension scheme for this target group is very challenging due to the difficulties in identifying eligible members and determining their unstable income as a basis for contribution calculation

ii) Implementing health insurance scheme for nonpoor working in the informal sector

- The government will explore the feasibility of implementing a social health insurance scheme for nonpoor citizens working in the informal sector. This scheme will be operated on a voluntary basis in the early phase with the option of transforming it into a compulsory scheme in the next phase of the project, depending on the economic situation at the time
- Assess the feasibility of expanding the coverage of the Health Equity Fund to include other vulnerable citizens

These efforts, currently, have resulted in the registration of thousands of informal workers, including street vendors, cyclo and tuk-tuk drivers, and domestic workers, including those who have signed up with the national social security fund (NSSF). They are now covered in the health care scheme provided by the NSSF. With the Law on Social Security Scheme, the government through the NSSF, is drafting a decree that will allow self-employed persons to access the pension and health care scheme.

Strategic Framework and Programs for Economic Recovery in the Context of Living with COVID-19 in a New Normal 2021–2023

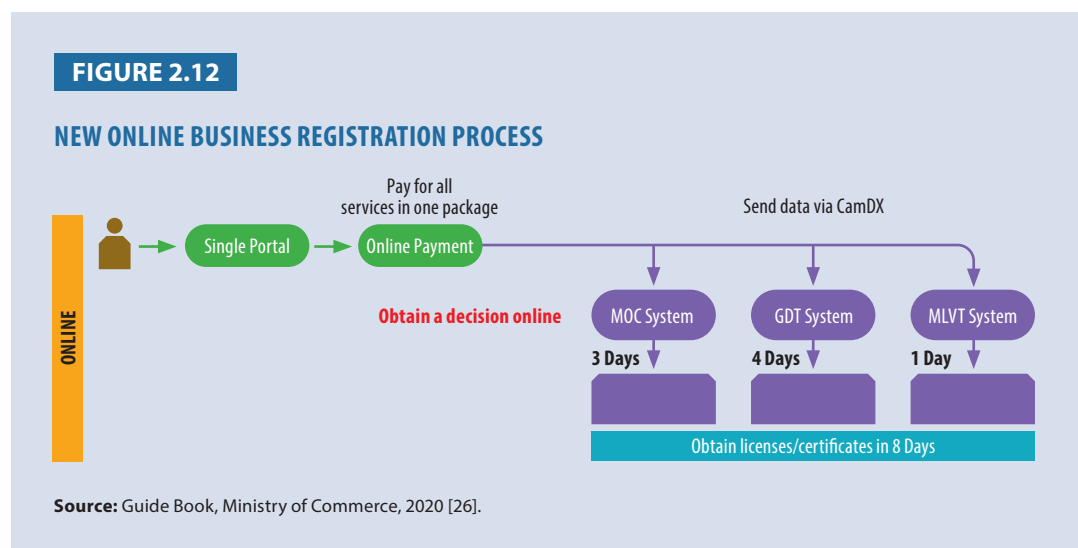
Informal workers are vulnerable and this is evident during the COVID-19 pandemic. Thus in the Strategic Framework and Programs for Economic Recovery in the Context of Living with COVID-19 in a New Normal 2021–2023 [24], the government committed to support these workers by incorporating them in the social protection system. The measures include:

- Explore the feasibility of a step-by-step expansion of the “Health Equity Fund” and “Social Security Schemes for Healthcare” to include protection for citizens living near the poverty line and in the informal economy
- Establish a “Shock-Responsive Social Protection Framework” to prepare for addressing issues and introduce social protection interventions promptly in the event of future crisis

National Employment Policy (NEP) 2015–2025

The NEP aims to increase the availability of decent and productive employment opportunities. The focus is to facilitate the transition of workers and economic units from the informal to formal economy by ensuring the preservation and improvement of existing livelihood during the transition [25]. By 2025, the government has planned to:

- i) Promote formal business registration by simplifying the process.
- ii) Raise awareness among the informal sector businesses on the benefits of registration.
- iii) Orientate informal and formal sector workers and employers on the labor law and other related regulation.
- iv) Study, assess, and disseminate the findings on employment, incomes, and productivity implication of formalizing the informal sector businesses.
- v) Provide incentives to encourage the transformation of informal businesses into the formal sector, which will promote the creation of decent employment opportunities.
- vi) Promote entrepreneurship.



With the government's proactive measures and approval of related decree, the implementation of online business registration was introduced in 2020. Previously, to run a business legally or in a formal sector required an enterprise to first register with the Ministry of Commerce (MOC), then registering for tax purposes at the General Department of Taxation (GDT), and notify the the Ministry of Labour and Vocational Training (MLVT) about the enterprise. The steps may include several other ministries. However, with the online single portal, enterprises can now register with the MOC, GDT, and MLVT simultaneously, streamlining the registration process. The digital license is approved within eight business days, making the process quicker and more efficient. In addition, in the first year of business registration, the price for patent tax that has to be paid to the GDT, is discounted by 50% in order to encourage and promote business registration in Cambodia. This new process not only facilitates in opening and registering a business, it is also a mechanism to encourage enterprises to formalize their operations.

CONCLUSION

Cambodia has experienced strong growth over the past two decades with a brief growth contraction of 3.1% during the pandemic in 2020. The economy rebounded from 2021 with the strongest growth in the industry sector, contributed mainly by the informal sector, including informal enterprises and informal employment.

There has also been a shift in employment from lower productivity sectors to higher productivity sectors in both industry and services areas. Concurrently, the number of wage earners in the country also increased from 46% in 2012 to approximately 48% in 2019. Despite the progress, the number of employment in the informal sector was still high at 77.4% in 2019, down from 81.2% in 2012. Excluding agricultural employment, informal employment accounted for around 90% in 2012 and decreased to about 83% in 2019.

Although Cambodia's general productivity has been improving, labor productivity in the formal sector tends to be higher compared to the informal sector. This trend can be reflected in two indicators. First, by looking at the economic activity with high informality, the productivity growth rate was relatively slow. For instance, in hotels and restaurants, the productivity growth rate between 2017 and 2021 has contracted by 10% while the construction sector's productivity marginally increased by only 1.9% during the same period. At the same time, in more structured sectors with lower informality, such as manufacturing, the productivity growth rate was 4.3%.

Second, the challenges of productivity in the informal sector can be reflected in the informal-to-formal sector wage ratio. In 2019, the data showed that the enterprises in the informal sector paid approximately 63% compared to those in the formal sector. As for the service sector, the wage ratio was even lower at around 59% while the manufacturing sector recorded a relatively higher ratio at 87%. From a gender perspective, on average, women in the informal sector earned around 82% compared to male workers, but the informal-to-formal wage ratio between male and female workers was not significantly different.

In terms of occupation, professionals and technicians, along with associate professionals, demonstrated high productivity in both formal and informal sectors. In the informal sector, these two occupations are paid the second and third highest wages at around USD359 and USD322, respectively. The informal-to-formal wage ratio for these occupations was also high at 98.9% and 90.2%, respectively.

Considering all the aforementioned aspects, Cambodia has a large informal sector within its economy, and this tended to be associated to unfavorable macroeconomic conditions and development outcomes. Enterprises in the informal sectors face various issues, including lower productivity, among others. More importantly, formal enterprises perceive their informal counterparts as a challenge in business operations as the informal enterprises do not pay taxes and do not comply with many government regulations. This poses a significant challenge for developing countries, like Cambodia.

To address these challenges, the government has put in place different policies to support the formalization process of both workers and enterprises with the objective to increase economic productivity while improving workers' living and working conditions. These policies and strategic frameworks remain relevant, at least in the short and medium term. However, it is important to note that the success of these policies lies in the effective implementation by relevant stakeholders. It should be acknowledged that the formalization process takes time due to its complexity. It involves not only the establishment of an enabling environment by the government, but also requires enterprises to understand the benefits gained from the formalization process.

CHAPTER 3

FIJI

EXECUTIVE SUMMARY

This report examines the informal sector in Fiji, focusing on its existence, operations, productivity, and challenges. It also suggests pathways for collaboration with relevant stakeholders, including the private sector, legal and statutory bodies, government entities, NPO in Fiji, and NGOs, in efforts to formalize the informal sector.

To gain an understanding of the informal sector's operations, qualitative methods were utilized to identify the predicaments faced by informal workers. The study was expanded to three different segments as to complement the limited available data on the Fijian economy. It comprises research activities to gain deeper and comprehensive understanding of the characteristics of Fiji's informal sector, differentiating it from the informal sector of the rest of the Asia-Pacific region.

The first study was a research and training project called the Sustainable Livelihood Project (SLP). This project focused on providing training in the rural areas in Fiji, particularly to the workers of the informal sector. The second activity was conducted in collaboration with the UNDP on the Right to Information (RTI) and its instruments. This involved conducting a focus group meeting with women entrepreneurs to investigate the nature of their unregistered businesses and their hesitation to formally register their businesses. The final study concentrated on addressing the challenges faced by the informal sector workers, such as income, expenses, literacy levels, and productivity gaps between the informal and formal sector workers of the same profession.

The findings indicate that many of the members of the informal sector in Fiji remain in unregistered businesses due to convenience, better control of their own income, and the dynamically changing and volatile economy. Training projects have been proven to be effective in upskilling workers to find better employment.

Based on these insights, the study suggests some policy adjustments and recommends additional training programs, digital literacy initiatives, and support programs for members of the informal sector, which could potentially transform Fiji's informal sector to formal employment. It recommends a multifactorial approach to ensure sustainability of the economy through efforts that emphasize inclusivity and productivity in the operations of informal workers.

OBJECTIVES

The objectives of this research are:

- Diagnose the informal sector productivity and map out the transition process from informal to formal sector
- Measure the informal sector productivity

- Identify policy interventions and support mechanisms for the informal sector
- Promote inclusive productivity

OVERVIEW OF FIJI'S INFORMAL SECTOR

Nations thrive on the success of its people. In developing and underdeveloped countries, the workforce comprises both public and private enterprises with jobs in the market further categorized into “formal” and “informal” sectors. Micro, small, and medium enterprises play a significant role in developing countries, contributing up to 70% of their GDP. However, the fact that too many jobs falling into the informal sector presents both benefits and challenges to the economy as well as to the individuals engaged in informal work.

The informal sector is broadly defined as units engaged in the production of goods and services to generate income for the individuals [1]. These employments could be very basic but strenuous, without any formalization, standards of operation, job security, absence of mandatory benefit, or conformance to labor oriented legislations. The informal sector usually does not have any involvement of statutory stakeholders. It is usually consisting of employees, such as daily wage earners who are not on a company's payroll [2]. They may be evading taxes and other legal compliances, and be operating in unprotected or unsecure environments.

Over the past year, Fiji's informal sector has grown exponentially. According to the ILO, prior to the pandemic, the informal sector in Fiji constituted to up to 66.2%. However, after the first wave of COVID-19 hit Fiji, many formal sector employees started looking for work and eventually turned to employment in the informal sector. This paradigm shift has resulted to a substantial increase, with estimates that the informal job sector rose to approximately 80%– 90% of total employment in Fiji [3].

LITERATURE REVIEW

Contrary to the generalized perception of informal sectors in the Asia-Pacific region, it is important to recognize that Fiji, as part of the Pacific Islands group, differs in certain aspects. The island country's proximity to more developed neighbors in the region, such as Australia and New Zealand, has influenced its demographic makeup. Fiji's population spread varies vastly where they have evolved and blended into what is seen today as the Fijian Spirit. As such, Fiji boosts an economy where products and services cater for a diverse range of consumers.

The urban migration from other remote parts of Fiji may have started in the early 1960s [4] and continues till date. The people in rural areas aspire to be part of contemporary Fiji, which boasts greater digital presence and an array of educational and career opportunities. This leaves rural areas, such as Vanua Levu, with significant skill gaps for its own development. Fiji's literacy rate stands at 91.6% [5]. The rural population constitutes approximately 42% [6] of the overall 884,887 population of Fiji [7]. About 50% of Fiji's population are under the age of 30.

According to the 2017 census conducted in Fiji, the labor force participation rate among the population aged 15 years and over is 57.1%. However, the urban migration or drift has led to a higher concentration of youth in central areas, like the capital city of Suva. To start their new journeys, the migrants who come from a lower socioeconomic setting opt for residency in informal settlements, such as the slum and squatter areas which are inexpensive and highly convenient. This includes illegal settlements, such as reclaimed areas, condemned buildings, and hidden squatter settlements. In Fiji, 90% of the vast land is owned by the native iTaukei community while 10% is freehold land and available for sale. Non-iTaukei

citizens who have had a historical legacy of farming and agriculture as their main source of income are on leased land belonging to iTaukei landowners. While many flexible leasing opportunities have been created, landowners still reserve the right to decide if their tenants will continue leasing their land or if they choose to end their contracts. As such, many farming communities become negatively impacted as they have been evicted out of their farms and homes, leaving them little to no choice but to join the informal job sector. The absence of legal compliance, inconsistent delivery of goods and services or formality of operation, preexisting fragile socioeconomic conditions, residing in cheap but noncompliant housing settlements, are just some of the dark realities of being engaged in the informal sector in Fiji, which makes these citizens highly vulnerable and marginalized.

The informal sector in Fiji encompasses a wide range of professions, including shoeshine boys, market wheelbarrow boys, illegal sex workers, domestic help, roadside vegetable market vendors, roadside fish sellers, door-to-door sellers of homemade products, gardeners, and daily wage earners, such as tile layers, bricklayers, carpenters, mechanics, electricians, and cobblers. The informal sector has grown significantly after the pandemic. It now consists of individuals who do baking and cooking at home and sell their produce either on the roadside or through social media. For many years, peanut sellers have been a familiar sight in Fiji since the introduction of public transport. They have been known to start their day very early in the morning, preparing homemade snacks and savouries, like peas and peanuts, to sell to passengers at bus stands. Though such work is not necessarily consistent in nature, the informal sector caters to various needs within the Fijian market.

In early 2022, a regional research project was conducted by the UNDP, in conjunction with University of the South Pacific [8]. The research project was based on Right to Information (RTI) and its instruments, and was deployed over the Pacific island countries. The research examined the RTI policies and practices in 22 countries worldwide in the effort to create avenues for relevant benchmarks which the Pacific can refer to. It was found that in the Pacific, only two countries (Fiji and Vanuatu) had robust RTI legislations with Vanuatu demonstrating stronger deployment of the legislation. Vanuatu also boosted a single seamless platform serving as the main portal for all general information, as articulated in their Information Act. The same portal is used for business registrations and hosts all relevant information needed by new business registrants. One key discovery of this research project was that most of the participants of the surveys and focus groups had said that although they earn a living through informal work, they have no intention of registering their businesses.

The informal sector in developing countries typically contributes to approximately a third of their GDP, which leads to about 70% employment. However, like most illegal and noncompliant activities in these nations, there are inherent disadvantages to be employed in the informal sector, particularly in terms of having no access to financial solutions and seed money for start-ups. In Fiji, although various parties have made several isolated efforts in providing financial literacy training, informal entrepreneurs continue to face challenges in directly accessing finance or seed money.

It is also observed that most criminal activities take place in areas where small entrepreneurs operate their businesses. They resort to operating in inexpensive, volatile areas due to their inability to pay for standard offices, stalls, or stores that also lack basic utilities, like electricity, water, and access to proper sanitation facilities (toilets). Such conditions pose serious occupational health and safety risk, which are mandatory business requirements in Fiji. It is also observed that informal sector workers often have their infants and older children with them during business hours. While they may choose to do so for convenience and safety, these infants are deprived of some basic needs and utilities, such as taps, toilets, and clean environments which are typically offered in formal settings. The children of these workers often do not attend school or suffer from malnutrition as they are fed with basic convenience meals in the informal business settings. Similar challenges are also prevalent in highly efficient and productive informal sectors in other developing countries, including the slum areas of India and Africa [9]. According to the ILO, it is evident that the majority of informal sector employees in developing countries are women and children [10]. Child labor is also a major problem within the informal sectors of many developing countries, including Fiji.

EMPIRICAL ANALYSIS

Post-COVID-19, the informal sector now employs up to 80% of the workers in Fiji [3]. However, according to a study conducted by UNDP, many of the informal sector workers have not registered their businesses. This research identifies three target groups, namely youths, persons with disabilities, and women entrepreneurs. They have invested into informal forms of employment, but do not comply with regulatory requirements due to various reasons discussed [8].

Due to the huge paradigm shift in informal employment, there is immediate and urgent need for additional strategic and technological support to ensure the sustainability of employment for the workers of informal sector. The ILO has embarked on collaborative programs with UNESCO, UNDP, and the IFAD to provide support for them, including funds, trainings, and technical assistance.

During the second wave of COVID-19, the tourism sector as well as many micro, small, and medium enterprises (MSMEs) suffered huge financial losses. Many of the employers in this sector had no choice but to make their staff redundant [11]. This forced airline workers, hotel/resort workers, and many formal sector employees to seek other means of generating income for livelihood. Many families also turned to subsistence economy whereby they had to learn to grow their own food for survival [12]. This challenging period made these workers experiment with craft skills with the support of online tools. The newly found knowledge, coupled with their existing ethnic and indigenous skills, helped them develop new products and services which they offer in informal markets at very inexpensive prices.

In Fiji, due to the illegal operations of the informal sector, it is difficult to measure the productivity of employees, products, and services. Similar to the neighboring Pacific urban areas, 40%–50% of the people live in informal and squatter settlements [13]. However, as highlighted earlier, the demand for informal sector workers increased post-COVID-19. To enhance the comprehensiveness of this study, a more extensive nationwide research is required. The broader study can provide an estimate of the number of people employed in the informal sector, the range of products and services, their customers as well as their predicaments and opportunities.

Currently, no studies have been conducted in Fiji that accurately measure the productivity gap between the formal and the informal sectors. While there have been independent studies conducted by various organizations that partially cover certain aspects of the informal sector, locating and assessing employees within this sector remains challenging. This difficulty is largely due to the majority of illegal operations within the informal sector. There has been a sudden increase in migration opportunities for informal workers who are engaged in construction work, childcare, and elderly care services.

It is also challenging to measure the capital-output ratio for the informal sector due to the nature of its operations in Fiji. According to a study conducted by Think Asia.org, Fiji's informal sector contributes up to 50% of the national GDP [14].

Many employees of the informal job sector in Fiji continue doing the same job for decades, and in some cases, until their passing. This is a clear indication that the income generated from their work is sufficient to meet their basic needs. However, given that their operations are not always legally compliant, it is possible that they may not be generating consistent income levels throughout the life cycle of the job. These scenarios could be particularly true for informal jobs that are considered criminal activities, such as drug peddling. The high risk associated with such jobs versus the high demand of the illegal goods make the “street price” of these items exorbitantly high, therefore it could generate random high income. Although most informal jobs may be able to generate enough income for basic annual needs of their families, it may not necessarily be consistent or highly profitable due to the volatility of their operations.

A significant linkage exists between the products and services of the informal sector in comparison to similar products and services offered by the formal sector. However, the items sold by the informal sector may be much cheaper and more readily available for several reasons.

Firstly, most of the informal operators do not have physical stores as it may require high rentals as well as incur costs for utility bills. The formal sector on the other hand, have legitimate operations, which include timely payment of mandatory taxes, insurance, accident and compensation, superannuation, and all mandatory leaves, as stipulated in Fiji's Employee Relations Act 2007 [15]. They have both physical and virtual offices for which they pay extra costs.

The relationship between the formal and the informal sector can be both competitive and complementary in nature. For certain informal jobs in Fiji, clients are usually "bonded" in the service of the vendors, such as street food sellers. As such, there is a constant, yet inconsistent amount of demand for the products and services that the informal sector offers. While the formal sector may be offering goods and services at cheaper prices, there is a higher probability that the employees are exploited as they do not follow mandatory requirements.

Secondly, the formal sector is aware of the market forces in which it operates. They are cognizant of the prices, demand, and supply of their competitors in both formal and informal sectors. This forces the formal sector to continuously study their market and decipher ways to remain operational with a competitive edge.

There are pathways in which the informal sector can be integrated with the overall development strategy of the country. In Fiji, this was made possible through the government's five-year short-term plans and 20-year long-term plans, which are strategic development plans encompassing two main agendas: Inclusive Socioeconomic Development and Transformational Strategic Thrusts [16]. This is also the government's strategy to boost economic growth while enhancing the opportunities for employment and productivity in the informal sector.

Since 2017, Fijian and regional organizations have shown a strong interest in initiatives aimed at achieving short- and long-term development goals for Fiji. This has also been supported by all major financial institutions in Fiji who are ready to offer competitive loan packages for the people of Fiji. Organizations in the region have been working in conjunction with the government of the neighboring countries, such as Australia, to offer incentives for the informal job sector. This includes small seed and capital grants to help start-ups in the initial stage of their business. One such organization is the International Centre for Democratic Partnerships (ICDP). ICDP is an Australian government-funded NGO that aims to enhance the skills and knowledge of Pacific Islanders through several initiatives, such as track dialogues, trainings, and workshops [17]. Support of this kind is highly beneficial as it assists in understanding the nature of informal jobs and gradually transitioning them into legitimate, skilled, and knowledgeable entrepreneurs, thereby paving the way for a promising future.

Despite the challenges, the informal sector in Fiji continues to thrive and makes significant contributions to the country's GDP. However, there are still constraints that prevent them from being absorbed into the formal sector. According to an article by the World Bank, though the informal sector in many economies offer great flexibility, the informal sector of developing countries is often synonymous with low productivity, reduced tax revenues, poor governance, excessive regulations, and poverty and income inequality, all of which pose major obstacles to productivity and growth [18]. These factors also explain the reluctance of informal sector employees to shift to the formal sector, as their income thresholds do not meet the requirements of the formal sector.

In a 2003 report by leading economists on Fiji's Urban Informal sector [19], the list of informalities in SMEs are identified as those engaged in the following works/areas:

- Shoe repair
- Internet café
- Car repair and maintenance
- Construction
- Cleaning and sanitation services
- Bakery operation
- Market vendor
- Retailers (corner shops)
- Car wash
- Tire repair shops
- Amusement parks and outlets
- Home-based cakes and pastry bakers
- Barber shops, hair salons, fashion salons
- Bridal makeovers
- Events planners/management groups
- IT shops
- Printers
- Graphic designers
- Sweets and confectionary vendors
- Florists
- Flea market vendors
- Road-side food vendors
- Wheelbarrow and shoeshine boys
- Sand miners
- Fleet operators

- Private rental cars
- Handicrafts
- Tailors
- Sex workers

However, it is worth noting that since the compilation of the highlighted list, many of the informal professions mentioned have transitioned to be recognized as formal employments and businesses over the past decades. The shift necessitates a study to be conducted of the current informal sector across the country.

INSIGHT INTO FIJI'S GDP STATUS

The information provided in the following section is adapted from a report by the Fiji Bureau of Statistics [20].

In 2020, the Real GDP declined by 17.2%. The contraction in economic activity was largely driven by the negative growth in industries, such as transport and storage, accommodation & food service activities, manufacturing, construction, wholesale and retail, and administrative support services. While positive growths were observed in agriculture, forestry, and human health activities, these expansions were not substantial enough to compensate for the declines experienced in other sectors.

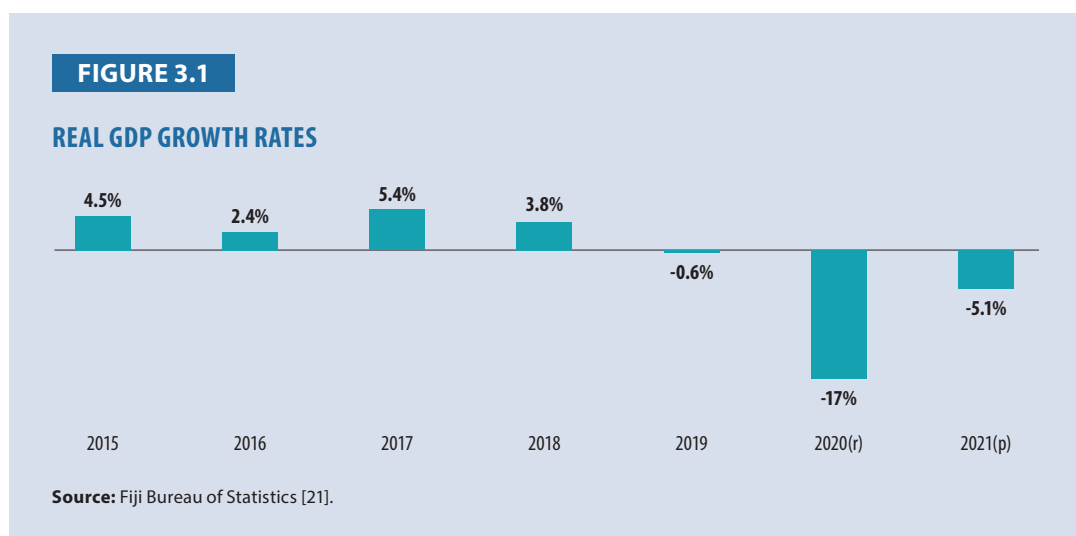
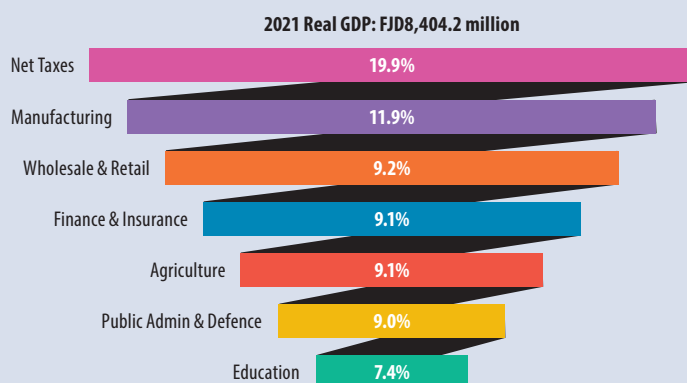


FIGURE 3.2

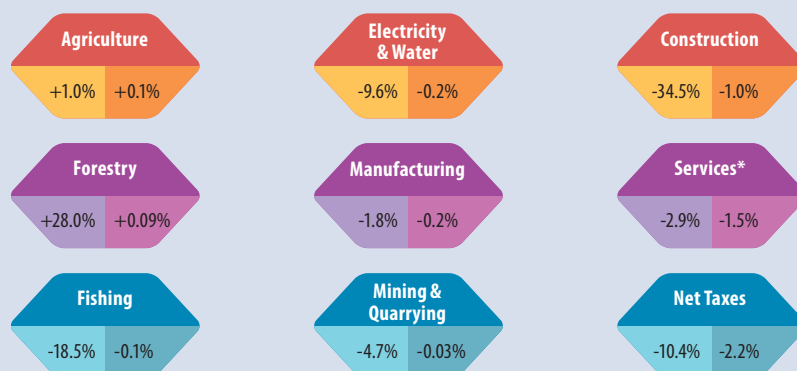
MAJOR CONTRIBUTORS TO 2021 GDP



Source: Fiji Bureau of Statistics [21].

FIGURE 3.3

INDUSTRY GROWTH AND CONTRIBUTION TO REAL GROWTH

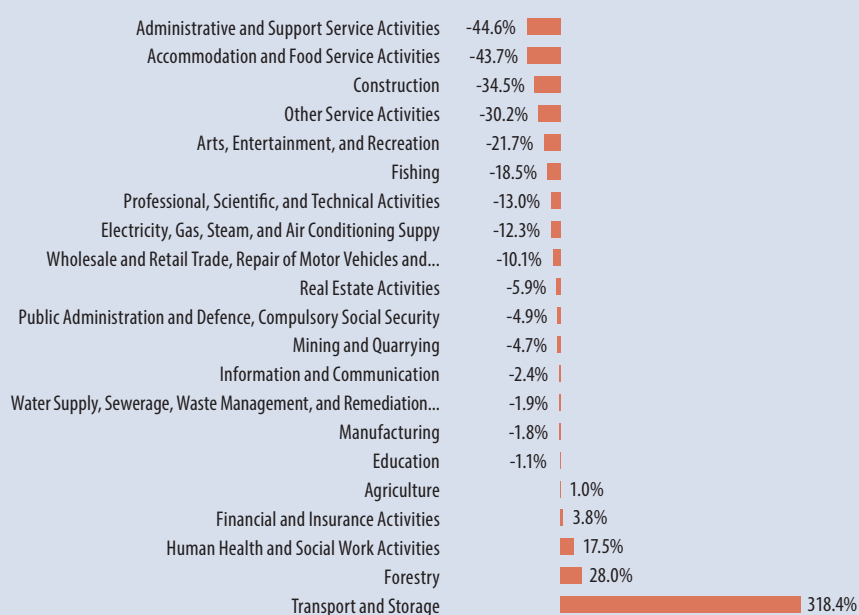


Source: Fiji Bureau of Statistics [21].

Major Industry Highlights

- Transport and Storage industry recorded a negative growth in 2020 resulting from decline in air transport and service activities incidental to water transport
- The decline in Accommodation and Food Services resulted from the decline in short-term accommodation and restaurant services
- Administrative and Support Services fell due to lower activities of tour operators and travel agencies
- Arts, Entertainment, and Recreation activities fell due to lower activities in recreation, sports facilities, and clubs

- Construction industry fell as a result of lower value of work put in place during the period
- Decline in Professional, Scientific, and Technical activities resulted from lower architectural engineering, legal, and auditing services
- Decline in wireless and satellite telecommunication activities led to the decline in Information and Communication

FIGURE 3.4**PROVISIONAL REAL GROSS VALUE-ADDED GROWTH RATES BY INDUSTRY IN 2021**

Source: Fiji Bureau of Statistics [21].

The COVID-19 crisis had significant negative impact on the Fijian economy in 2020. Due to the closure of the international borders and other restrictions, the economic activities in most industries declined. Tourism industry and tourism-related industries were greatly impacted [22].

THE THREE STUDIES IN FIJI

Three separate research projects were conducted to gain a comprehensive understanding of the informal sector in Fiji. The projects are:

- The Sustainable Livelihood Project (SLP)
- The Right to Information Project (RTI)
- A study on the Contributions and Challenges of the Informal Sector in Fiji

STUDY ONE: SUSTAINABLE LIVELIHOOD PROJECT

The Sustainable Livelihood Project (SLP) is an initiative by the Fijian government aimed at reducing poverty by aiding the informal sector in Fiji. The National Training and Productivity Centre (NTPC) of Fiji National University is the custodian of the SLP which is deployed through its community-based nonformal education and training programs.

The objectives of SLP training are:

- Promote development in rural and maritime communities, peri-urban centers, and informal settlements
- Develop and empower human resources in these communities with practical skills that can support individuals, families, and community developments
- Alleviate poverty and unemployment
- Address rural-urban migration
- Encourage/motivate young people to pursue further studies
- Provide insights into the productive use of available natural resources to challenge individuals to start their own businesses [23]

NTPC has conducted a nationwide assessment to evaluate the productivity of the informal sector through SLP initiatives.

Objective

The main objective of the Impact Assessment is to gather evidence-based information and feedback from these communities and present it to the Ministry of Economy, Ministry of Education, the Vice Chancellor of Fiji National University (FNU), Director of NTPC, and the government of Fiji, who are the key stakeholders providing funding for the SLP.

Key Outcomes

The research has yielded a number of key outcomes to address any inquiries.

The geographical location of research venues as per map coordinates:

- Ra Province - Latitude of 17°30" South and Longitude of 178°10" East
- Tailevu Province - Latitude of 17°50" South and Longitude of 178°30" East

TABLE 3.1

SUMMARY OF PARTICIPANTS TRAINED AND GRADUATED IN 2020

Training Summary				
Year	Dates	Venue	No. of Training Programs	Total Trained
2020	17–28 February	Qaravivai, Dogotuki, Macuata	13	101
	17–28 February	Nabalebale, Walevu, Cakaudrove	16	596
	07–18 December	Navatuyaba, Toga Rewa	9	145
		Total	38	842

Source: Fiji Bureau of Statistics [24].

TABLE 3.2

SUMMARY OF PARTICIPANTS TRAINED AND GRADUATED IN 2021

Training Summary				
Year	Dates	Venue	No. of Training Programs	Total Trained
2021	12–26 February	Natalaira, Dawasamu, Tailevu	11	186
	06–17 December	Sanasana, Malomalo, Nadroga	13	251
		Total	24	437

Source: Fiji Bureau of Statistics [24].

TABLE 3.3

SUMMARY OF PARTICIPANTS TRAINED AND GRADUATED IN 2022

Training Summary				
Year	Dates	Venue	No. of Training Programs	Total Trained
2022	14–25 February	Nailuva, Ra	12	193
	14–25 February	Naivuvuni, Navitilevu, Ra	1	21
		Total	13	214

Source: Fiji Bureau of Statistics [24].

TABLE 3.4

SUMMARY OF PARTICIPANTS TRAINED FROM 2012–21

Sustainable Livelihood Project: Training Summary		
Year	Total No. Programs	Total
2012	181	4,309
2013	77	1,209
2015	84	2,047
2016	113	6,082
2017	126	6,118
2018	98	4,012
2019	97	4,419
2020	38	842
2021	24	437
Total	581	28,196

Source: Fiji Bureau of Statistics [24].

TABLE 3.5

IMPACT ASSESSMENT VENUES AND NUMBER OF PARTICIPANTS IN 2022

Province	District Visited for Survey	No. of Participants Interviewed
Ra	Nabukadra and Matawailevu	89
Tailevu	Naqia and Wailotua	81
Total		170

Source: Fiji Bureau of Statistics [24].

TABLE 3.6

SLP PROGRAMS OFFERED AND ASSESSED

No.	Programs
1	Basic Baking & Patisserie
2	Basic Cookery
3	Commercial Floriculture
4	Domestic Electrical Installation
5	Fiberglass Boat Repair
6	Basic Screen Printing
7	Freehand Garment Cutting and Construction
8	Household & Sanitary Plumbing
9	Carpentry & Joinery Coffin Construction
10	Small Engine Repair
11	Basic Solar Installation & Maintenance
12	Basic Business & Communication
13	Wooden House Construction & Basic Block Laying

Source: Fiji Bureau of Statistics [24].

Research Methodology

The study used quantitative and qualitative methods to collect data and information, involving case studies of living beings (naturalist) and (interpretive) approach. The data was gathered from the perspective and knowledge of the participants.

Case Study Method

The research was based on case studies to investigate the impacts of SLP trainings at individual venues. Creswell (1998) states that the researcher needs to spend most of the time on site and interact regularly with participants to gain maximum information related to the study. Hence, the researchers visited the selected villages and engaged with participants actively for interviews and to experience first-hand the outcomes of their newly acquired skills.

Data Collection Tools

Data gathering were mostly collected through engagement of questionnaire in both English and iTaukei languages, observations, informal discussions (*talanoa* sessions), interviews with participants, immediate supervisors, provincial officers, village heads, and church leaders. In addition, snapshots, video shots, and voice recording were used to capture as much relevant information as possible. More importantly, all survey methods were implemented with the consent of the respective individuals involved.

Challenges

The main challenge of this study was the isolation of many of the villages and the difficulties of transportation. Finding the participants in the villages at the right time also proved to be a challenge as many would be working in their farms during the day. Consequently, the focus groups meetings were usually scheduled in the evenings.

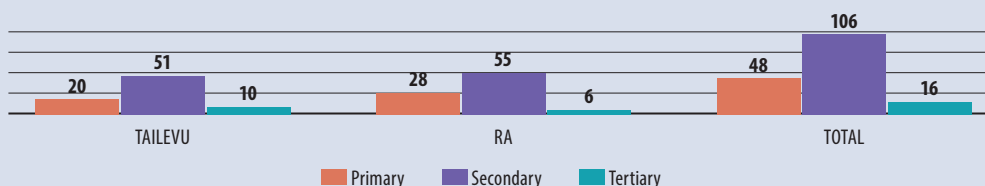
Key Results

i) Education level of the focus group

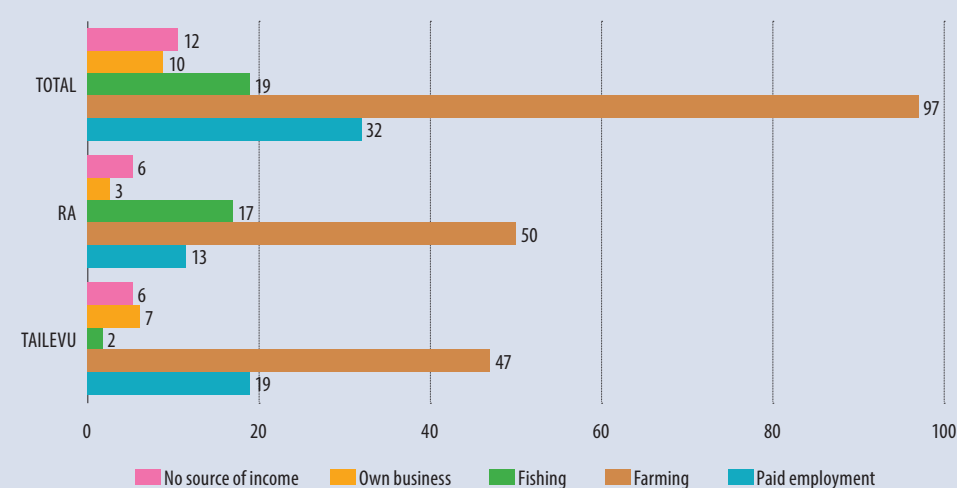
The survey revealed that of the 170 participants interviewed across the two provinces, 48 had received primary level education, 106 had completed some form of secondary education while 16 participants had attained tertiary, either at the certificate or diploma level. This information is significant as it shows that despite people residing in rural areas, they have relatively good basic education. SLP attracted a lot of participants because the trainings were free and accessible to everyone from the age of 15 and above. It promoted inclusiveness and equal opportunity for all, irrespective of educational qualifications or past work experience. Most importantly, the trainings were delivered right at the doorsteps of rural and maritime communities.

ii) Sources of income of the focus group before SLP

Within the focus group, 32 participants (19%) were in paid employment, 10 (6%) operated their own businesses, such as canteens, sewing, and grog, 19 (11%) were involved in fishing, 97 (57%) relied on the land, and 12 (7%) declared of having no identifiable source of income.

FIGURE 3.5**EDUCATION LEVEL OF PARTICIPANTS**

Source: Fiji Bureau of Statistics [24].

FIGURE 3.6**PARTICIPANTS' SOURCES OF INCOME BEFORE SLP TRAINING**

Source: Fiji Bureau of Statistics [24].

iii) Income of participants after SLP training

The study showed that the majority participants that relied on income sources, such as farming and fishing, were able to secure new businesses and paid employment after the SPL trainings. This is highly encouraging as it indicated that participants have successfully applied their newly acquired skills from the SLP training and continued practicing them.

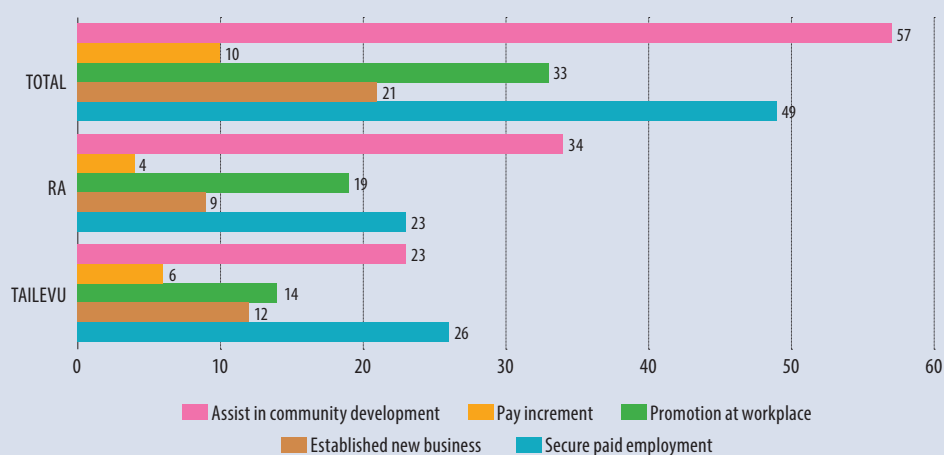
iv) Impact of SLP Training for Participants

In terms of SLP's economic impact, 21 participants (12%) interviewed have established new business projects as a result of the skills acquired during the training, 49 participants (29%) have managed to secure paid employment, 33 participants (19%) had received some form of benefits at work through promotion while 10 (6%) have reported a pay increment at their workplace after acquiring their new skill. The majority of 57 (34%) participants have reported that the new skills learnt have helped and empowered them to assist in community developments after undergoing the SLP training.

Meanwhile, the key finding from this impact assessment is that over 98% of SLP graduates found the training to be fulfilling and effective with requests made for repeat training visits in future.

FIGURE 3.7

IMPACT OF SLP TRAINING FOR PARTICIPANTS



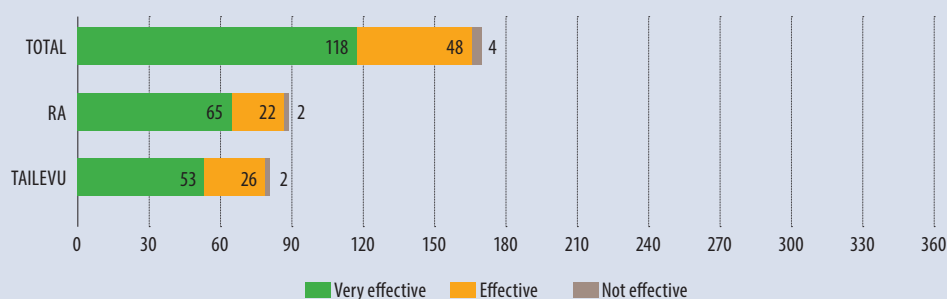
Source: Fiji Bureau of Statistics [24].

v) Impact of SLP training on the participants' livelihood

The majority of participants applauded the SLP training, considering them highly effective in terms of acquiring essential life skills. Within the focus group, 118 participants had indicated the SLP training had motivated villagers to actively participate in development initiatives within their family units and communities. Based on the data collected, 48 participants found the SLP training to be just effective while four participants marked it as not effective. The many positive comments shared during *talanoa*¹ sessions brought a sense of satisfaction and were a breath of fresh air.

FIGURE 3.8

EFFECTIVENESS OF SLP TRAINING ON PARTICIPANTS

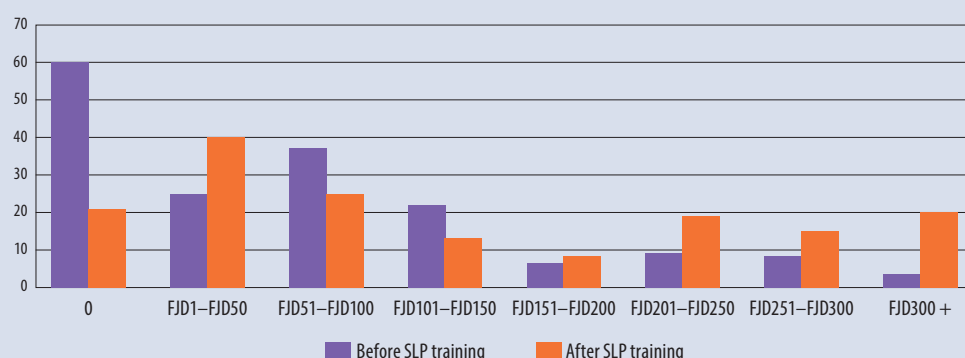


Source: Fiji Bureau of Statistics [24].

¹ *Talanoa* is an iTaukei term which means an informal conversation, which is typically done during grog sessions.

FIGURE 3.9

INCOME OF SLP PARTICIPANTS BEFORE AND AFTER SLP TRAINING



Source: Fiji Bureau of Statistics [24].

As shown in Figure 3.9, prior to the SLP training, the majority of the participants (121 or 72%) earned an income between FJD0–FJD100 per month while only 28% of the total participants interviewed were earning more than FJD100 per month. However, after undergoing the SLP training, a noticeable and progressive change had occurred. Only 56% (95) of the participants earn between FJD0–FJD100 per month while 46% (75) of the participants have started to earn more than FJD100 per month. Furthermore, 12% (20) of the participants reported that they earn more than FJD300 per month.

Therefore, it is evident that participants have experienced socioeconomic improvements after undergoing the SLP training.

Conclusion for SLP Initiative

The study proves that SLP training creates inclusive opportunities for the rural and maritime communities through social and economic impact. All information gathered were drawn from the participants, village heads, *Mata-ni-Tikina*², immediate supervisors, and provincial officers. The stakeholders as well as participants have witnessed notable success through the positive changes it has brought to their daily livelihood.

In recent years, education and training for SLP have become a focal point of concern in the rural development debate [25–28]. FNU, in collaboration with the government of Fiji, has taken the initiative to educate the rural and maritime communities through SLP to facilitate transformative process toward sustainable development and empower participants to turn their visions into reality. The FNU Non-Formal Education and Training department not only provides appropriate skills and training, but also encompasses motivation, understanding, and support needed in empowering the participants of all age groups (women, children, youths, and elders) to generate a sustainable livelihood. Lawrence (2009) states that many studies show that education is crucial in preparing people for jobs and equipping them with relevant knowledge, skills, and capabilities to enable them to manage or step out of poverty [29].

² A government official who is responsible for the affairs of the iTaukei communities at district level.

The research conducted posed no threat to the participants, community, or the surrounding regions. More importantly, none of the data collection methods took place without the consent of the participants as their confidentiality and dignity were always the top priority of the researchers. All the information produced by the participants, village heads, and immediate supervisors was always kept under the custody of the researcher and remained strictly confidential.

Assessing the impact of SLP training approximately 12–24 months after completion showed remarkable results in the livelihood of the participants, their families, and communities. The SLP participants showed profound change in their lives, utilizing the skills they acquired through the training. They sincerely expressed their desire for more SLP trainings from both the government and FNU in the near future.

The SLP project has also presented many older people a once-in-a-lifetime opportunity to attain a university certificate, even though only at participatory level. This achievement is highly cherished and valued. The government of the day deserves to be applauded for its continued support in fulfilling its promises to enhance access to education and training to all, particularly for the marginalized and disadvantaged members of society.

In conclusion, the research results strongly support the continuation and expansion of the SLP training in the future, which will contribute to the further advancement of Fiji's economy. With the support and funding of the government of Fiji, FNU will continue its endeavor in capacity building, workforce training, and livelihood development for other rural and maritime communities.

STUDY TWO: THE RIGHT TO INFORMATION (RTI) RESEARCH PROJECT

The RTI Research Project was a global initiative of UNDP and implemented by academic organizations and private consultancies in various parts of the world. The South Pacific Project for Right to Information was managed by University of the South Pacific in Laucala Campus, Suva. The study commenced with a thorough analysis of the RTI legislations across 22 countries, in efforts to identify benchmarks for the Pacific. The study later narrows its focus to the South Pacific Islands and identified two countries which had robust RTI legislations: Fiji and Vanuatu.

The major element of this study in relation to the current study on the Productivity of the Informal Sector is the three focus groups of the RTI project: (i) youth, (ii) women entrepreneurs, and (iii) persons with disabilities.

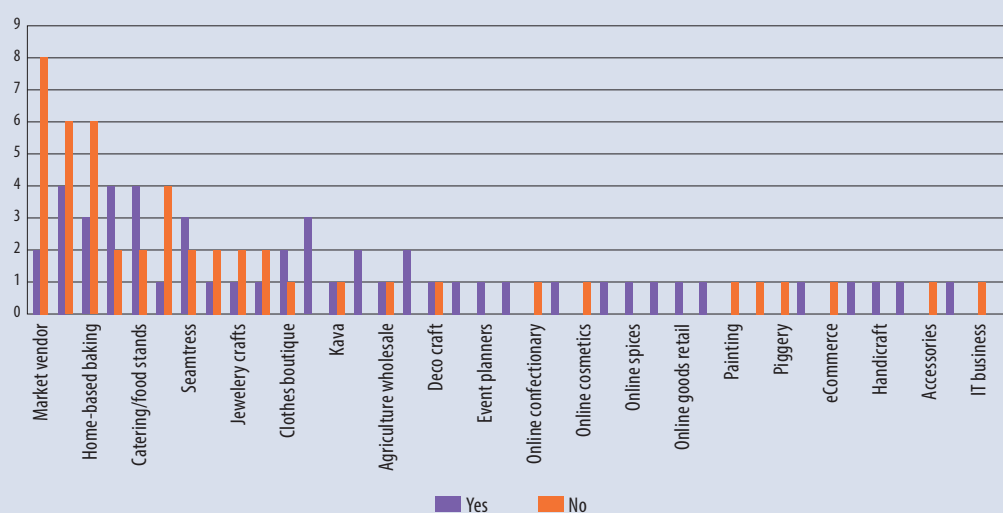
The study aimed to assess the participants awareness on RTI via survey and focus group meetings. It also investigated some fundamental issues, such as the predicaments faced by new entrepreneurs, women entrepreneurs, and persons with disabilities during business registration. A notable finding was that a majority of the participants had not registered their business at all. The study also reviewed on how participants preferred to receive information that should be on public domain and accessible.

Based on the data collected, most of the businesses emerged due to loss of jobs during the pandemic, and continued to operate due to its success. However, a significant number of participants expressed difficulties in accessing relevant information for further business development or registering their businesses. They also highlighted that the major reasons for not registering their business are inconsistent income, time-consuming procedures to get information, and legislative requirements. All the participants unanimously agreed on the importance of having access to applications, information kiosks, and updated government websites to obtain relevant business information.

Figure 3.10 and Table 3.7 illustrate the results drawn from a focused group meeting of 100 women entrepreneurs conducted across various locations in Fiji.

FIGURE 3.10

WOMEN ENTREPRENEURS AND BUSINESS REGISTRATION



Source: Fiji Bureau of Statistics [24].

TABLE 3.7

BREAKDOWN OF BUSINESS TYPES AND BUSINESS REGISTRATION STATUS

Business Type	Registered		Total
	Yes	No	
Market vendor	2	8	10
Second-hand clothes	4	6	10
Home-based baking	3	6	9
Canteen	4	2	6
Catering/food stands	4	2	6
Craft	1	4	5
Seamstress	3	2	5
Gift hampers	1	2	3
Jewelry	1	2	3
Online clothes	1	2	3
Clothes boutique	2	1	3
Handicraft	3	0	3
Kava	1	1	2
Food stall	2	0	2
Agriculture wholesale	1	1	2
Florist	2	0	2
Deco craft	1	1	2
Cosmetic retail	1	0	1
Event planners	1	0	1
Restaurant	1	0	1
Online confectionary	0	1	1
Fijian craft	1	0	1

Business Type	Registered		Total
	Yes	No	
Online cosmetics	0	1	1
Errands	1	0	1
Online spices	1	0	1
Photographer	1	0	1
Online goods retail	1	0	1
Security	1	0	1
Painting	0	1	1
Sustainable gifting	0	1	1
Piggery	0	1	1
Business consultant	1	0	1
e-commerce	0	1	1
Beauty salon	1	0	1
Handicraft	1	0	1
Skin care	1	0	1
Accessories	0	1	1
Taxi	1	0	1
IT business	0	1	1
Craft	0	1	1
Total	50	49	99

STUDY THREE: RESEARCH ON THE CHALLENGES OF THE INFORMAL SECTOR IN FIJI

Given the lack of available data on the current challenges faced by the informal sector in Fiji, a study was conducted with the objective to understand its various aspects. The study explored the types of informal employment Fijians engaged in, their digital skills, any disabilities they may have, the typical amount of income generated, their expenses and spending patterns, and their opinion and perspective on how the authorities can assist in formalizing their employment.

Results

Figure 3.11 provides the demographics of the surveyed sample, comprising a total of 60 participants who reside in different parts of Fiji: northern, central, eastern, and western divisions. Among the participants, 51.67% were females, 46.67% were males, and 1.67% identified as others. The study found that 93.33% of the participants did not have any form of disability. Participants were 18 years and above and the majority group (25%) fell into the 25–34 years age group.

FIGURE 3.11

DEMOGRAPHICS OF THE SAMPLE

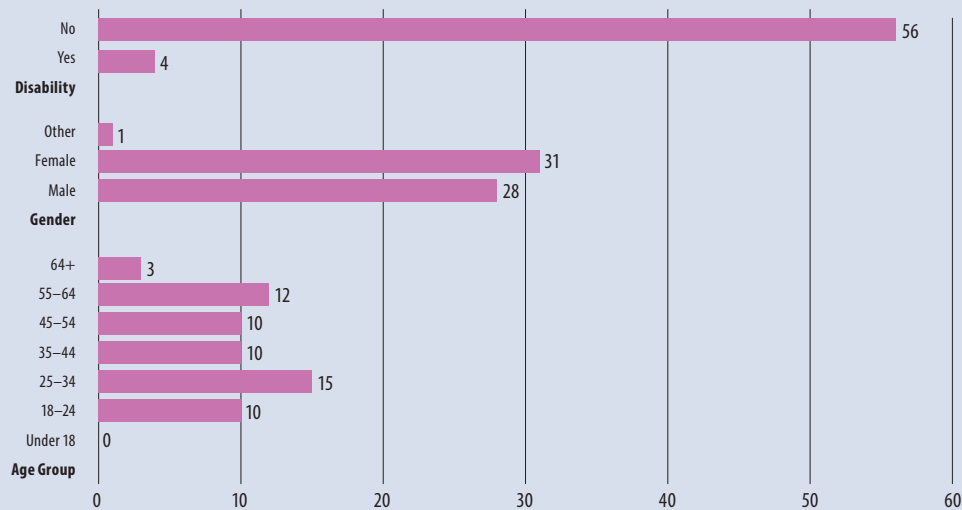
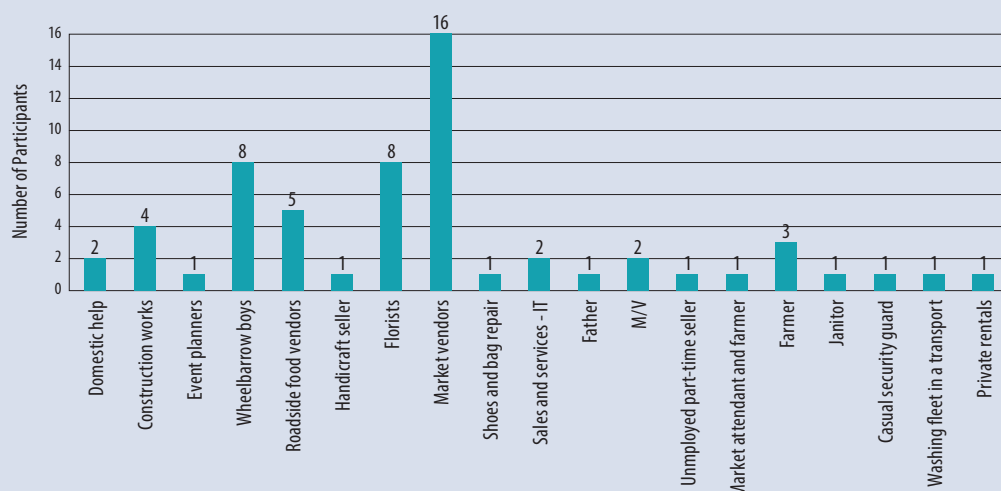


Figure 3.12 presents the field of work for the participants, highlighting that the majority of them were market vendors (26.67%), followed by florists (13.33%) and wheelbarrow boys (13.33%). When the participants were asked if they had registered their business, it was revealed that the business owners preferred not to register. Reasons cited included inadequate earnings to pay for additional expenses, the perception that the registration process is long, and lack of consistency of the job they had or the amount of money earned.

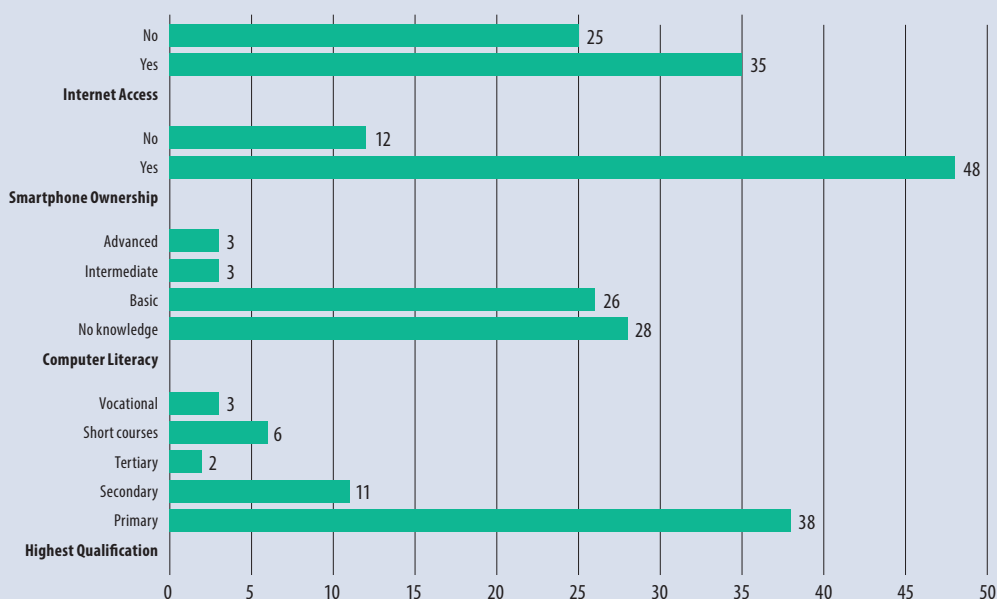
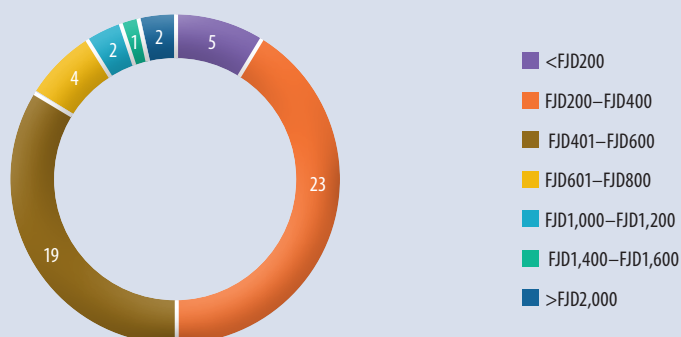
FIGURE 3.12

FIELD OF WORK OF THE SAMPLE



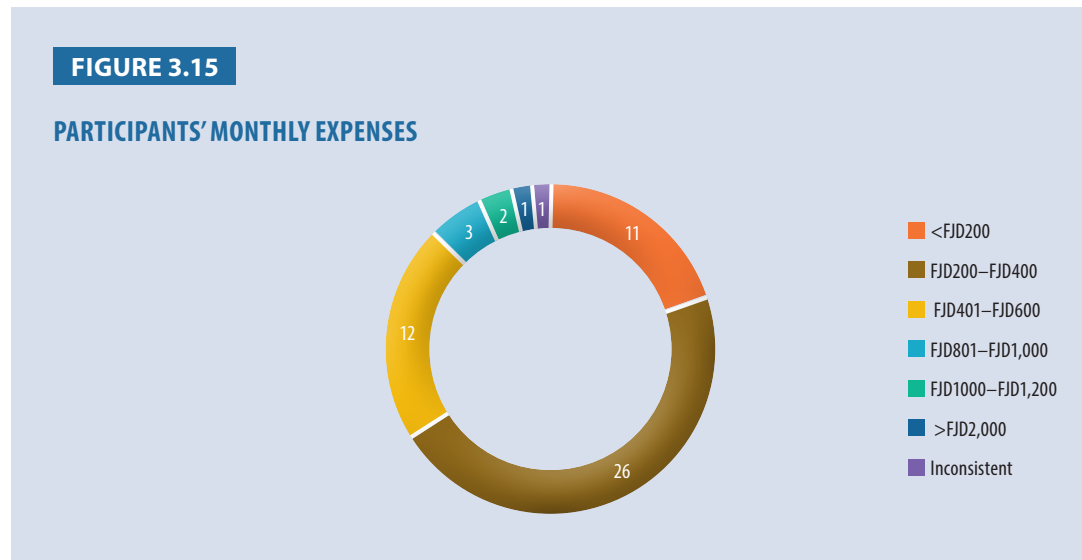
Source: Fiji Bureau of Statistics [24].

As shown in Figure 3.13, the majority of the participants (63.33%) had completed only primary level education while 18.33% pursued education beyond secondary level. The survey also gauged the participants' exposure to digital technology. Figure 3.13 presents that 46.67% of the participants had no knowledge about using computers whereas 43.33% had basic computer skills, and 5% possess intermediate and advanced levels of computer literacy. Notable, 80% of the participants owned a smartphone and 58.33% had access to the Internet. The participants had a positive attitude toward using ICT gadgets as they found them helpful in enhancing their knowledge, marketing, and selling their goods and services as well as improving their financial management skills.

FIGURE 3.13**PARTICIPANTS' QUALIFICATION AND DIGITAL EXPOSURE****FIGURE 3.14****PARTICIPANTS' MONTHLY INCOME**

Most of the participants (38.33%) had an average monthly income of FJD200–FJD400, followed by 31.67% earning approximately FJD401–FJD600 per month.

As shown in Figure 3.15, 43.33% of the participants spent around FJD200–FJD400 monthly, followed by 20% of the participants spending between FJD401–FJD600 and 18.33% spending less than FJD200 per month. The results showed that the monthly expenses significantly correlated to the monthly income of the participants. All participants' biggest expenses were basic food items, followed by fuel, water, and electricity bills.



The informal sector workers contribute toward GDP through their expenditure on essential items, such as food items, rent, bills, and raw items for their businesses. All the aforementioned items are subject to government tax, meaning that the informal sector workers ultimately contribute to the nation's GDP. In this survey, a total 60 participants were studied and the approximate spending breakdown is as follows: FJD12,255 on food, FJD3,350 on bills, and FJD3,565 on transportation.

In Fiji, people pay a 9% value-added tax (VAT) on electricity bills while no taxes for basic food items and 15% on transportation. Based on these tax rates, the contribution of the surveyed sample to Fiji's GDP can be estimated as follows:

- Basic food items: 0% VAT
- Electricity bill: $(9/100) \times 3350 = \text{FJD}301.50$ (water bills have 0% VAT)
- Transportation: $(15/100) \times 3565 = \text{FJD}534.74$

Therefore, the 60 participants collectively contribute approximately FJD836.24 monthly as VAT to their country's GDP.

TABLE 3.8

INCOME COMPARISON BETWEEN THE INFORMAL AND FORMAL SECTOR EMPLOYMENTS IN FIJI (PER DAY)

Profession	Income			
	Informal (FJD per day)	Formal (FJD per day)	Difference (FJD)	Percentage Change
Domestic help	25.00	29.36	4.36	17.44%
Construction workers	25.00	29.36	4.36	17.44%
Masseuse	100.00	500.00	400.00	400%
Event planners	20.00	100.00	80.00	400%
Wheelbarrow boys	10.00	29.36	19.36	193.6%
Roadside food vendors	20.00	200.00	180.00	900%
Handicraft seller	20.00	200.00	180.00	900%
Florists	50.00	200.00	150.00	300%
Market vendors	50.00	100.00	50.00	100%
Shoes and bag repair	30.00	50.00	20.00	66.67%
Sales and services (IT)	300.00	500.00	200.00	66.67%
Janitor	20.00	29.36	9.36	46.8%
Security Guard	15.00	29.36	14.36	95.73%
Wash boys (fleet)	20.00	29.36	9.36	46.8%
Private rentals	400.00	29.36	100.00	25%

Fiji's minimum wage rate as of 1 January 2023 is FJD4 per hour. However, at the time of the study, the minimum wage rate was FJD3.67 [30]. Table 3.8 shows rates calculated based on an eight-hour workday, in accordance to the minimum wage requirement. It is worth noting that certain professions are more successful as entrepreneurs rather than being employed by others. For example, massage and beauty services as well as highly skilled professionals, such as electricians and mechanics, prefer freelancing as it allows them to generate higher income.

CONCLUSION AND POLICIES

A majority of the informal sector workforce in Fiji resides in squatter settlements. Many of these are on indigenous land, where landowners have given informal permission to the residents. This is a highly volatile arrangement as there are legal, safety, and sustainability issues with such housing arrangements. The Fijian government's long-term plan is to legalize these squatter settlements by establishing legitimate agreements with landowners, whereby the residents can get long-term leases or the option to purchase the land. This agreement also comes with utility provisions. The Housing Assistance & Relief Trust (HART) and Public Rental Board (PRB) have extended additional support to the informal sector through housing grants, facilitated by the Housing Authority program.

One common characteristic among workers in the informal sector is the lack of compliance with regulatory and statutory requirements. In addition, many of these workers have basic to no education, leading to limited opportunities for formal sector employment. Findings from the RTI research indicate that a majority of the informal sector workers prefer not to register their businesses due to high fees and the cumbersome process of involving paperwork and legal requirements. Therefore, the introduction of a digital portal or mobile application for business registration would be helpful. Such systems could also provide information on the nature of business and compliance, reducing fines from noncompliance. To be part of the digital economy, it is imperative that the citizens are digitally literate. Resources need to be mobilized to ensure that those living in rural areas have adequate Internet penetration, good

bandwidth, and smartphones to use such systems. Another related issue is the digital poverty faced by the marginalized communities in the rural areas of Fiji.

The SLP enrollment process should be reviewed and improved to capture accurate participant details and contacts for ease of analysis during the Impact Assessment Survey (IAS) exercise. There is an opportunity to consider incorporating agricultural courses that complement the resource base of target communities, particularly in remote locations where formal employment opportunities are lacking.

There needs to be some connections established with business lenders, donor agencies, and NGOs to assist SMEs in rural areas. Training programs can be contextualized where local materials may be better utilized as training resources.

Unregulated businesses in developing economies are usually run by people unemployed in the formal sector of the economy. The informal economy consists of activities that have market value but are not formally registered but can contribute to GDP and tax revenue if they were properly recorded. The informal sector in Fiji, unlike the informal sectors of the bigger Asia-Pacific countries, vary greatly due to the demographics and local culture. Fiji's population is relatively small compared to her neighboring countries. The current, most promising policy for informal sector improvement is the government's Five-Year and 20-Year National Development Plan which have articulated several strategies for converting the informal workers to formal employment [16].

The Asia Productivity Organization (APO), in collaboration with the NTPC, has successfully conducted many programs benefiting both the formal and informal sectors. As Fiji's national productivity organization, NTPC is committed to assisting industries through training and consultancy projects. During the pandemic, NTPC had initiated programs to assist the unemployed and vulnerable members of the informal sector, which will continue every year.

This study encompassed three research activities to collect data through the SLP Project, the RTI Project, and the independent study on the Challenges of the Informal Sector, that was carried out solely for the purpose of this study. Overall, there are still limitations in the availability of timely and accurate data. The latest publication on GDP statistics is from 2020, a recent change of government brings new strategies for formalizing the informal sector.

Another impeding issue currently faced in Fiji is the massive migration of Fijians to neighboring developed countries, such as Australia and New Zealand. Many informal sector workers have secured casual labor work overseas. After the decline of the sugar cane industry decades ago, Fiji's number one source of income is tourism. The pandemic has heavily impacted the tourism industry which left drastic dents in the Fijian economy. However, recent months have seen the country recovering with a high influx of tourist arrivals.

The fact that many Fijians are migrating overseas calls for the introduction of good incentives in the Fijian market to help retain skilled youth. There is an opportunity for the government to explore family care benefits and incentives for families to retain Fijian youths, address the long-term population shortage, and bridge the current migration skill gap.

The latest census report compiled in 2017 indicated that around 13.7% of Fiji's population was living with one or more disabilities. In response to this report, the Fijian government introduced the National Employment Policy which stipulated that 2% of the workforce of Fijian organizations need to be reserved for persons with disabilities. This policy should be extended into the civil service to encourage other organizations to be mindful of inclusive representation in the workforce.

A number of UN initiatives, such as the grant schemes and the research projects can further investigate the employment gaps. The NTPC is actively involved in measuring the productivity gaps in Fiji and implementing training and development, as mandated by the Fijian government.

Even with these initiatives, the responsibility of formalizing the informal sector should be shared among all relevant stakeholders. Policies alone do not necessarily translate into actionable targets. It is recommended that regular gap analysis should be conducted every six months to help reassess and re-strategize initiatives to ensure better engagement of the informal sector.

The ILO suggests the use of the KILM 8 indicator, which measures employment in the informal economy as a percentage of total nonagricultural employment [31]. It is imperative to extend the discussed three studies, or a robust equivalent of the research method, to the vast majority of the country in order to better gauge the contributions, challenges, and opportunities of the informal sector.

There were some limitations of the studies, such as the massive migration of the informal sector employees to developed neighboring countries for seasonal employment. Another limitation was that at the time of this study, Fiji was preparing for general elections that made it somewhat challenging to reach out to the communities where informal sector workers reside and operate.

As the country recovers from the devastating repercussions of the two major waves of the pandemic, the people of Fiji have realized their potential through innovative reengineering of their work methods, devising new products and services, and exploring opportunities both locally and abroad. This is a promising dawn in the era of industrial and commercial revolution.

CHAPTER 4

INDIA

EXECUTIVE SUMMARY

The analysis of the broad-patterned informal sector in India reveals its persistent presence in various dimensions, including output, employment, and gender. The proportion of informal employment varies across states and sectors, with higher incidences in rural areas and agricultural activities as opposed to urban areas and nonagricultural activities. Within unincorporated nonagricultural enterprises, trading and other services are more exposed to informality than manufacturing. Gender bias too is clearly evident in the informal sector. The study finds that the informal sector has been experiencing declining productivity compared to the formal sector. Considering the magnitude and contribution of the informal sector to India's economy, the issues of informality and low productivity require a practical approach and integrated strategies to facilitate the transition into formal economy, create new formal jobs, and prevent further informalization. Policy levers, such as literacy, capacity building, physical infrastructure, support infrastructure (availability and accessibility), and governance reforms can foster the growth of this sector along with promoting informal entrepreneurship. The heterogeneity of informal firms create the distinctive sets of challenges they face. Therefore, there is a compelling need for a systematic approach to deal with different sets and sizes of challenges as one-size-fits-all solution is unlikely to work. Dealing with factors adding to the uneasiness of doing business can incentivize the informal firms to move toward formalization that can further improve living standards and crucially contribute to the economic growth of India.

INTRODUCTION

The past few decades have seen extensive intellectual debates on the informal sector and the phenomenon of informalization of workers and production processes. These discussions have engaged various stakeholders, including the government, academia, international bodies, and civil society. The focus of these debates has been on increasing awareness and improving the welfare of workers, promoting social equity, and recognizing the potential of the informal sector in making productivity more inclusive by designing policy paths to raise economic efficiency.

The informal economy contributes to the overall economy directly and indirectly. It accounts for not only a bigger share in the gross value added (GVA), but also in employment. Globally, 61.2% of the workforce [1] and 80% in South Asia are employed in the informal economy, with many others engaging in informal activities within the formal economy [2]. Where India is concerned, with a GDP PPP level of approximately USD4,858 billion, the size of an informal economy¹ is estimated to be 52.4% of the GDP PPP levels²[3]. It provides low-cost labor, inputs, goods, and services to both formal and informal sectors and enterprises. Moreover, it makes low-cost goods and services available to the general public,

¹ As per the estimates of the recent report of the State Bank of India (iei), the informal economy has shrunk from 52% in 2017–18 to 15%–20% of the GDP in 2020–21.

² World Economics (<https://www.worldeconomics.com/Informal-Economy/India.aspx>).

particularly to disadvantaged households while also contributing to environmental preservation and sustainable development. It has been observed that informal enterprises usually leave a smaller carbon footprint compared to their formal counterparts. Therefore, experts have been emphasizing the importance of considering this vital segment of the economy in climate change discussions and the green growth debate [4].

With this background, this study presents a careful assessment of the informality patterns in India, along with a few other relevant characteristics. Discussion also delves into topical issues, especially that of low labor productivity, and challenges in the informal sector, and the role it can play in spurring economic growth through productivity gains and policies. The study is based on a review of research conducted both in India and globally. The following sections are laid out: map out the broad patterns of informality in India; focus on labor productivity performance in the formal versus informal sectors; identify key issues related to the informal sector; suggest approaches to address informality by identifying constraints and designing appropriate policies; provide insights into recent policy responses from the government of India; and finally, the conclusion.

INFORMAL SECTORS IN INDIA AND ITS BROAD PATTERNS

In India, a formal job is defined as a job offer that provides access to at least one social security benefit [5]. The informal economy comprises both the informal sector and its workers and the informal workers in the formal sector [6]. The National Commission for Enterprises in the Unorganised Sector (NCEUS³, 2009) provides a clear distinction between the informal sector and the informal economy. The NCEUS outlines the informal sector: “. . . all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis and with less than ten total workers.” On the informal worker/employment: “. . . those working in the [informal] sector or households, excluding regular workers with social security benefits provided by the employers and [including] the workers in the formal sector without any employment and social security benefits provided by the employers.” The report also states that “the employees with informal jobs generally do not enjoy employment security (no protection against arbitrary dismissal), work security (no protection against accidents and illness at the workplace) and social security (maternity and health care benefits, pension, etc.) and therefore any one or more of these characteristics can be used for identifying informal employment”[6].

Broad Patterns of Informality

Agricultural activities are the mainstay of informality, both globally (93.6% in 2018)[6] and in India. Table 4.1 clearly illustrates that in rural areas of India, 93.4% of individuals in 2009–10 were informally engaged in the agriculture sector while in the urban areas, the figure was 92.5%. The informal sector is also significantly present within nonagricultural activities, accounting for 71.3 % in rural areas and 66.9% in urban areas. The extent of informality is influenced by the education and skill levels of individuals. Limited physical, human, and financial capital usually lead to workers being absorbed into their own-account enterprises (OAEs)⁴ or microenterprises [7].

³ NCEUS is a national body commissioned by the government of India in 2004 to act as an advisory board for matters regarding the informal employment sector.

⁴ Informal sector in India comprises of OAEs operated by OA workers or unorganized enterprises which employ hired workers. OAEs are run without any hired worker employed on a fairly regular basis.

TABLE 4.1

PERCENTAGE OF INFORMAL SECTOR WORKERS IN 2009–10

Sector	Agriculture (%)			Nonagriculture (%)		
	Male	Female	Person	Male	Female	Person
Rural	90.6	95	93.4	73	64.1	71.3
Urban	88.3	97.7	92.5	68.3	60.1	66.9

Source: Mitra (2020).

The informal sector in agriculture offers more job opportunities for women compared to nonagricultural sectors. Further, a higher percentage of women are engaged in the informal agriculture sector in urban areas than in rural areas. It is observed that there are fewer men than women in the informal agriculture sector. However, the trend is the opposite in the nonagriculture sector, where proportion of male workers are higher than women. This observation, made by Mitra from the National Sample Survey⁵ (NSS) 66th round report 2009–10 (Table 4.1), indicates limited diversification opportunities for women in nonagricultural sectors.

It is vital to highlight the prime importance of unincorporated enterprises in India's economy. These enterprises contribute to the GDP and employment, and they are numerous and varied in size and spread. This segment is dominated by proprietary and partnership firms⁶ operating in the manufacturing, trade, and other service categories. These unincorporated nonagricultural enterprises are considered to be informal sector enterprises. According to data from the 73rd round of survey by NSS dedicated to these enterprises, India had a total of 63.4 million unincorporated nonagricultural enterprises in 2015–16 with 51.3% (32.5 million) were concentrated in rural areas. These enterprises employed 111.3 million workers with 61.4 million (55.2 %) in urban areas and the remaining 49.9 million (44.8%) in rural areas. Among the total enterprises, 63.4 million, or 31% were engaged in manufacturing, 36.3% in trading, and 32.7% in other services at the all-India level. It is important to mention that the number of workers in unincorporated nonagricultural enterprises (excluding construction) increased 3% over the period from the NSS 67th round (July 2010–June 2011) to the 73rd round of the survey (2015–16), primarily due to a substantial increase in employment opportunities provided by these establishments [8].

OAEs⁷ refers to enterprises that do not employ hired workers on a regular basis and accounted for the major share in the unincorporated nonagricultural enterprises at 84.2% (excluding construction) in the country. In rural areas, the share of OAEs was at 91.4% while in urban areas, the percentage was at 76.6%. Among the total estimated number of enterprises in the country, 98% were located in 22 major states. Uttar Pradesh (UP) topped with the highest share in the number of enterprises, followed by West Bengal in rural areas and UP in urban areas. West Bengal had the highest number of OAEs at 90.06% while Delhi had the lowest at 57.69% [9].

These estimates of informality provide insights on the relationship between poverty, vulnerability, and the type of employment in the unorganized sector. Table 4.2 reveals that among the workforce, 90% of casual laborers, 74.7% of self-employed⁸ workers, and 66.7% of regular-wage employees were classified as poor and vulnerable.

⁵ The NSS in India is responsible for conducting large-scale sample surveys at all India levels in diverse fields.

⁶ NSS round excluded Limited Liability Partnership (LLP) enterprises from its coverage.

⁷ In the Periodic Labour Survey of the government of India [9], the relevant activity status codes of self-employed workers with description are as follows:
 - Code 11: worked in household enterprises (self-employed) as own-account worker.
 - Code 12: worked in household enterprises (self-employed) as an employer.
 - Code 21: worked in household enterprises (self-employed) as helper.

⁸ Periodic Labour Force Survey (PLFS) 2020–21 categorizes self-employed workers into three categories: those who worked in household enterprises (self-employed) as an own-account worker, an employer, or a helper.

TABLE 4.2

PERCENTAGE DISTRIBUTION OF UNORGANIZED WORKERS ACROSS EXPENDITURE CLASSES

Status	Total (%)	Self Employed (%)	Regular Wage Workers (%)	Casual Workers (%)
Poor and vulnerable	78.7	74.7	66.7	90
Higher income group	21.3	25.3	33.3	10
Total	100	100	100	100

Source: National Commission for Enterprises in the Unorganized Sector (NCEUS), "Report on Conditions of Work and Promotion of Livelihoods in the Unorganised Sector", New Delhi, August 2007, p.8

Note: The data is provided to NSS 61st Round 2004–05, Employment-Unemployment Survey.

To understand the composition of informality in India, the informality in output (GVA) will be first examined, and then briefly explore informality in employment and its gender dimensions.

Informality in Output

Upon examining Table 4.3, it becomes evident that the informal sector contributes significantly more to the gross value added (GVA) than the formal sector. Over the period from 2011 to 2018, the informal sector's contribution to GVA hovered around 52% to 53% with a slight decrease from 53.9% in 2011–12 to 52.4% in 2017–18. In contrast, the formal sector's contribution to GVA marginally increased from 46.1% to 47.6 % in 2017–18 [10].

TABLE 4.3

SHARE OF FORMAL AND INFORMAL SECTORS TO GVA IN SELECTED PERIODS

Industry	2011–12		2016–17		2017–18	
	Formal (%)	Informal (%)	Formal (%)	Informal (%)	Formal (%)	Informal (%)
Agriculture, forestry, & fishing	3.2	96.8	2.8	97.2	2.9	97.1
Mining & quarrying	77.4	22.6	77.4	22.6	77.5	22.5
Manufacturing	74.5	25.5	76.4	23.6	77.3	22.7
Electricity, gas, water supply, & other utility services	95.7	4.3	95	5	94.7	5.3
Construction	23.6	76.4	26.6	73.4	25.5	74.5
Trade, repair, accommodation, & food services	13.4	86.6	13.4	86.6	13.4	86.6
Transport, storage, communication, & services related to broadcasting	53	47	53.7	46.3	52.3	47.7
Financial services	90.7	9.3	88.1	11.9	88.1	11.9
Real estate, ownership of dwelling, & professional services	36.9	63.1	46.8	53.2	47.2	52.8
Public administration & defence	100	0	100	0	100	0
Other services	58.8	41.2	52.7	47.3	52.1	47.9
TOTAL GVA at Basic Prices	46.1	53.9	47.3	52.7	47.6	52.4

Source: Murthy S.V.R. (2019), "Measuring Informal Economy in India", paper presented at 7th IMF Statistical Forum: Measuring the Informal Economy, IMF (file:///C:/Users/seema/Downloads/session-ii-murthy%20(2).pdf).

The State Bank of India's research report [11] reported a decline in the informal sector from 52.4% to 15.4% in 2020–21, based on the rise of the formal sector in GDP during the same period that indicated the successful ongoing transition of the informal into formal. However, this claim has been challenged by Bhattacharya [12] and Nagaraj and Kapoor [13] in their respective studies. Nagaraj and Kapoor argued that the SBI report's definition of the informal sector based on online registration does not ensure access to social security. Therefore, merely registering on online portals without guaranteeing social security does not amount to a decrease in informalization or a move towards formalization.

Informality in Employment

In India, informal employment exists within the informal sector as well as the formal sector.

TABLE 4.4

SHARE OF INFORMAL EMPLOYMENT IN TOTAL EMPLOYMENT

Period	Share of Informal Sector in Total Employment (%)	Share of Informal Employment in Formal Sector (%)	Share of Informal Employment in Total Employment (%)
1999–2000	88	4.2	92.2
2004–05	87.4	5.8	93.2
2009–10	85	7.5	92.5
2011–12	82.6	9.5	92.1
2017–18	81.1	9.5	90.6

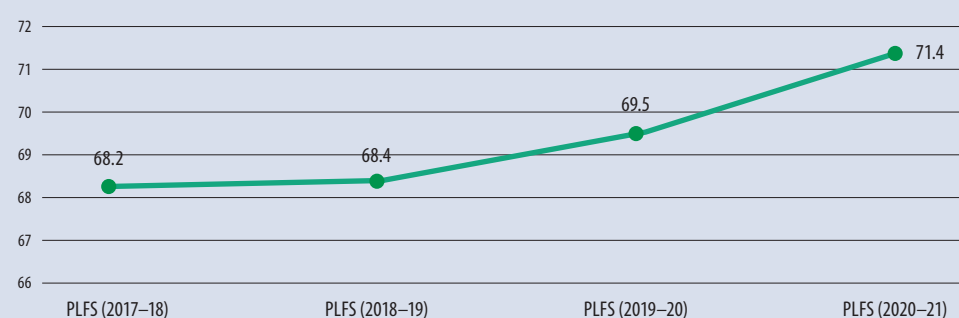
Source: Nagaraj and Kapoor (2022).

Table 4.4 shows a decline in the share of the informal sector in total employment, from 88% in 1999–2000 to 81.1% in 2017–18. However, during the same period, the proportion of informal employment within the formal sector has more than doubled, increasing from 4.2% to 9.5%.

Overall, the share of informal employment in total employment has decreased marginally from 92.2% in 1999–2000 to 90.6% in 2017–18.

FIGURE 4.1

EXTENT OF INFORMALITY

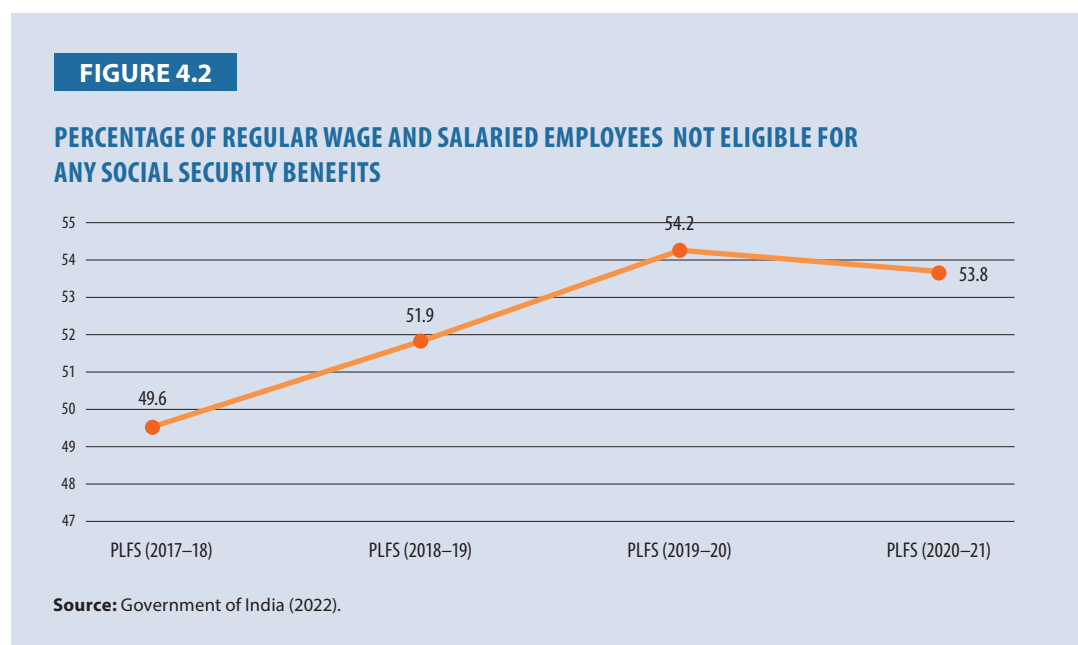


Source: Government of India (2022).

Note: The figure shows the percentage of persons engaged in informal sector enterprises (proprietary and partnership).

It is worth mentioning that the Periodic Labour Force Survey (PLFS) [9] considers proprietary⁹ and partnership¹⁰ as informal sector enterprises. Figure 4.1 shows the percentage of persons engaged in this sector has gone up¹¹ from 68.2% to 71.4% between 2017–18 and 2020–21, which signifies an increase in informality in India. However, the PLFS 2020–21 shows a slightly downward trend in the percentage of regular wage and salaried employees who are not eligible for any social security benefit.

There had been an increase in the percentage of regular wage/salaried employees not eligible for any social security benefit from 49.6% to 54.2% between PLFS 2017–18 to PLFS 2019–20 (Figure 4.2).



The percentage of regular wage/salaried employees not eligible for any social security benefit increased from 49.6% in 2017–18 to 54.2 % in 2019–20. However, a marginal decline has been noticed in PLFS 2020–21. The PLFS 2020–21 indicates a small decline. This proportion was much higher for females compared to males (Figure 4.3).

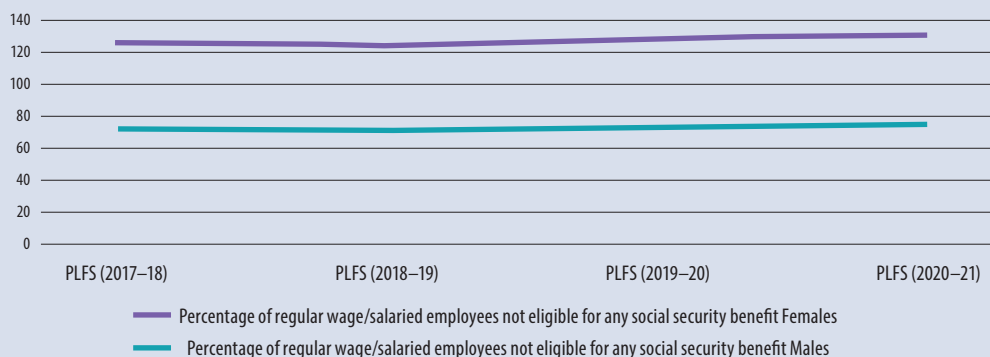
⁹ When an individual is the sole owner of an enterprise, it is a proprietary enterprise.

¹⁰ Defined as the 'relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all. There may be two or more owners, belonging to the same or different households, on a partnership basis, with or without formal registration, where there is a tacit understanding about the distribution of profit among the so-called partners.

¹¹ The argument that counters the claim of SBI research (2021) that formalization is on increase (see Nagaraj and Kapoor, 2021).

FIGURE 4.3

PERCENTAGE OF REGULAR WAGE AND SALARIED EMPLOYEES NOT ELIGIBLE FOR ANY SOCIAL SECURITY BENEFITS BASED ON GENDER



Source: Government of India (2022).

Gender Dimension to Informality

There is a gender bias in informality in India. The informal sector constitutes the main source of livelihood for females (56.7%) and males (75.3%), according to PLFS 2020–21 [9].

In 2020–21, the informal sector employed 71.4% of workers. Additionally, a significant percentage of women were engaged as self-employed workers, followed by casual work and regular wage categories [14]. This ongoing trend of engagement of a large percentage of females being involved in self-employment (53.4%) and casual work (24.7%) is worrisome. It indicates that they are unable to find gainful employment in the short run, which often leads to underemployment and they get trapped in low-productivity jobs. Another important point of concern is the gender wage gap, where men and women working for the same number of hours do not receive equal pay. The pandemic further added to the woes of women, particularly those already burdened with dual responsibilities. It also triggered the “worst recession” since independence [15], severely impacting the service sector that employs a large number of women workers, such as domestic servants, cooks, beauticians, housekeeping staff in hotels, hotel receptionists, and retail clerks. The pandemic not only proved to be a “job killer”¹² but also added to the burden of unpaid household work for women, leading to the physical, mental, and emotional stress and affecting their overall well-being [16].

The following segments delve into the productivity levels in the informal sector compared to the formal sector.

¹² The PM of Fiji had termed this pandemic as “a job killer” (<https://www.theguardian.com/world/2020/jul/11/job-killer-of-the-century-economies-of-pacific-islands-face-collapse-over-covid-19>).

PRODUCTIVITY IN FORMAL AND INFORMAL SECTORS

Not much has been written about informal sector productivity in India, despite its significance for both individuals and the country's overall quality of life¹³. Krugman [17] has emphasized that "Productivity isn't everything, but in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker". It is widely accepted that informal enterprises and workers are less productive compared to their formal counterparts. Table 4.5 clearly illustrates that informal sector productivity (0.58) was much lower than formal sector productivity (6.06) at the beginning of the 2010s, and both declined toward the end of the decade. This trend is concerning as "poor productivity hampers wage growth, stoking public dissatisfaction" [18]. Additionally, low productivity can lead to a cascade of issues, including increased poverty, widened inequalities, hampered growth, and lower standards of living. Given that productivity growth is expected to be a major driver of economic growth in the coming decades [19], it is imperative to make productivity growth more inclusive by creating a level playing field for both informal and formal sectors.

TABLE 4.5

COMPARISON OF RELATIVE LABOR PRODUCTIVITY OF FORMAL VS. INFORMAL SECTOR IN SELECTED PERIODS

Sectoral Productivity	2011–12	2017–18
Formal	5.76	4.76
Informal	0.58	0.57

Source: Author's calculation based on Murthy S.V.R. (2019) and government of India (2019–20).

Note: i) Labor productivity is the ratio of the contribution of the sector to GVA and its contribution to employment.

ii) GVA shares of formal and informal sectors for the respective years (46.1 % and 53.9% in 2011–12 and 47.6% and 52.4% in 2017–18, respectively) have been taken from Murthy (2019).

iii) The percentage of formal employment are based on the India's Economic Survey 2019–20 that stated formal employment in the economy increased from 8% in 2011–12 to 9.98% in 2017–18.

iv) Share of informal employment in total employment has been taken from Nagaraj and Kapoor (2020).

Sinha [20], in her work, found that formal workers achieve production per unit of labor to be as much as 14 times higher than informal workers. Using manufacturing output, the researcher assessed productivity growth¹⁴ in the formal and informal sectors. Kanbur [21] and Kathuria et al. [22], in their respective studies, also corroborate that formal enterprises are more productive than informal ones. Kathuria et al. [22] discovered that the organized sector demonstrates higher productivity compared to the unorganized sector.

Kanbur [21] highlights a significant disparity in the productivity levels¹⁵ between informal enterprises. According to his findings, about 97.3% of manufacturing enterprises in India have an average productivity that is one-sixth of the productivity of the 0.8% of enterprises in the formal sector. He suggests that "if informal enterprises could be raised to the productivity of formal enterprises throughout India, output per worker would be five times as high, with corresponding consequences for per capita income and poverty."

In their study, Kathuria et al. [22] analyze the productivity performance of both the organized and unorganized segments of India's manufacturing sector using unit-level data.

¹³ Also see WIEGO on links with growth (<https://www.wiego.org/informal-economy/poverty-growth-linkages/links-growth>).

¹⁴ Sinha (2010) used the ratio of industrial production to industrial employment as a proxy for labor productivity. The changes in productivity were calculated using annual averages.

¹⁵ Value added per worker was the measure used in Sinha's study.

TABLE 4.6

BREAKDOWN OF LABOR PRODUCTIVITY LEVELS IN VARIOUS REGIONS: ORGANIZED VS. UNORGANIZED SECTORS IN 1994–2005

No.	State	Organized Sector	Unorganized Sector	Ratio of Labor Productivity
1	Punjab	117,258	30,400	3.9
2	Haryana	196,970	34,712	5.7
3	Rajasthan	214,919	26,259	8.2
4	Uttar Pradesh	172,966	165,576	1.04
5	Bihar	91,783	58,080	1.6
6	Assam	101,358	10,800	9.4
7	West Bengal	155,601	20,276	7.7
8	Orissa	90,753	8,586	10.5
9	Madhya Pradesh	149,918	31,820	4.7
10	Gujarat	226,971	23,739	9.6
11	Maharashtra	274,877	37,963	7.2
12	Andhra Pradesh	151,235	15,604	9.7
13	Karnataka	229,955	21,749	10.6
14	Kerala	136,408	19	7
15	Tamil Nadu	199,920	20,618	9.7
	Mean	172,907	39,706	4.4
		0.52	0.36	

Source: Kathuria et al. (2010).

Note: Labor productivity refers to the partial factor productivity.

The researchers observed in their study that labor productivity in the organized sector is 4.4 times higher than that of the unorganized sector during the period 1994–2005. The higher coefficient of variation in the organized sector compared to the unorganized sector (0.52 vs. 0.36) is indicative of greater regional variation in the former. Maharashtra demonstrates the highest labor productivity in the productivity sector while UP leads in labor productivity within the unorganized sector. On the other hand, Orissa and Assam have the lowest labor productivity in the unorganized sector. Various studies have highlighted the implications of low productivity in the unorganized/informal sector for per capita income and poverty [7, 21].

Examining the productivity levels of women-owned enterprises compared to men-owned enterprises, Raveendran [23] finds that women-owned enterprises are less productive in comparison (Table 4.7). According to the researcher's estimate, the productivity of women-owned enterprises is around 34.6% of that of enterprises owned by men.

TABLE 4.7

LABOR AND CAPITAL PRODUCTIVITY RATIOS

Enterprise Owner	Per Worker	Per Fixed Capital
Women	36,055	0.24
Men	104,194	0.34
Any	91,782	0.33

Source: Raveendran (2017).

Note: The ratio of GVA to labor input has been used for calculating labor productivity and that to capital stock for capital productivity. Raveendran [23] considered the value of own fixed assets at market price collected in the survey (67th and 68th Round of National Sample Survey Organisation of Government of India) as capital stock used for production in the informal sector for comparison between women-owned and men-owned enterprises. All workers, including part-time workers reported in the survey, were taken as a labor input.

Low Labor Productivity within the Informal Sector

The NSS 73rd Round (July 2015–June 2016) provides the estimates of Gross Value Added Per Worker (GVAPW), which is obtained by dividing the GVA of an enterprise by the total number of workers employed by the enterprise (Table 4.8).

TABLE 4.8

ESTIMATED GVAPW BY ENTERPRISE TYPE, SECTOR, AND AREA

Broad Category Average	GVA per Worker (INR)								
	Rural			Urban			Rural + Urban		
	OAE	Estimated	All	OAE	Estimated	All	OAE	Estimated	All
1	2	3	4	5	6	7	8	9	10
Manufacturing	36,020	86,296	48,151	62,822	140,638	102,522	46,088	122,344	74,378
Trade	64,103	131,949	72,338	113,540	189,748	146,738	87,610	180,218	115,884
Other services	71,267	131,353	92,114	104,119	169,307	139,692	87,527	157,504	119,939
all*	55,526	114,080	69,263	96,653	167,577	131,754	73,959	152,703	103,741

Source: Government of India (2018).

Note: i) *Includes enterprises engaged in noncaptive electricity generation and transmission.

ii) The table is adapted from the NSS 73rd Round Survey (July 2015–June 2016) which covered all the unincorporated nonagricultural enterprises in manufacturing, trade, and other services sector (excluding construction). The survey also encompassed noncaptive electricity generation and transmission.

GVAPW is widely recognised as an important measure of labor productivity. It can be noted from Table 4.8 that GVAPW is substantially lower in rural areas compared to urban areas for each broad activity category, namely manufacturing, trade, and other services. In rural areas, the GVAPW stood at INR69,263 for rural areas while in urban areas, it reached INR131,754. Further, OAEs across all sector categories have lower GVAPW (at INR73,959) compared to the establishments (INR152,703). Specifically, in rural areas, the GVAPW for OAEs was INR55,526 (vs. INR96,653 in urban areas) while for establishments¹⁶, it was INR69,263 in rural areas compared to INR167,577 in urban areas. Additionally, the highest GVAPW was reported in enterprises engaged in other services activities (at INR119,939), followed by trading (at INR115,884) and manufacturing (at INR74,378) [8].

The 73rd Round survey [8] also reported that the GVAPW estimates in urban areas were consistently higher than those in rural areas across all the major 22 states of India. Further, GVAPW was higher for establishments than for OAEs in all sectors. The trends indicate that productivity challenges are more prevalent in rural enterprises compared to urban ones, particularly in the manufacturing and trading sectors. Considering that 51% of micro, small, and medium enterprises (MSMEs)¹⁷ are located in rural areas and 84% are OAEs [24] with the remaining establishments (employing at least one worker), there is a need to promote and support OAEs.

Another important point that needs attention is that productivity differences often translate into wage differences, which account for higher inequalities and lower standards of living. The neo-classical theory [25–27] posits that higher productivity is associated with higher wages. The European Commission [28]

¹⁶ Establishments highlighted here are those operating in the informal sector only. It is to be noted that NSS 73rd Round Survey (July 2015 – June 2016) did not cover enterprises registered under the Companies Act, 1956, the electricity units registered with the Central Electricity Authority (CEA), government and public sector enterprises, and cooperatives were outside the coverage of the survey.

¹⁷ The following criteria are used in India for classifying an enterprise with effect from 1 July 2020. In the case of microenterprises, the investment in plant and machinery or equipment should not exceed INR10 million and turnover should not be more than INR50 million. For small and medium enterprises (SMEs), these limits stand at not more than INR100 million and not exceeding INR500 million for small enterprises and not exceeding INR500 million and INR2,500 million for medium enterprises [46].

also emphasized the role of higher wage growth resulting from higher productivity in reducing inequalities and raising the standards of living. However, the informal sector in India has been characterized by low productivity and low wage rates, contradicting the expectations of the neo-classical theory.

TABLE 4.9

ANNUAL EMOLUMENTS PER HIRED WORKER FOR EACH BROAD ACTIVITY CATEGORY AND SECTOR

Broad Activity Category	Emoluments per Hired Worker (INR)			
	Rural	Urban	Rural + Urban	Emoluments per Day*
1	2	3	4	5
Manufacturing	56,001	85,515	75,595	209.98
Trade	63,048	83,371	80,267	222.96
Other services	94,227	104,161	101,094	280.82
All*	74,871	92,441	87,554	
Monthly emoluments*	6,239.35	7,703.41	7,295.33	
Emoluments per day*	207.975	256.78	243.17	

Source: Government of India (2018), Economic Characteristics of Unincorporated Non-agricultural Enterprises (Excluding Construction) in India, NSS 73rd Round (July 2015–June 2016), Ministry of Statistics and Programme Implementation, New Delhi.

Note: *Author's calculation based on NSS data.

When examining the average annual emoluments per hired worker for each broad activity and sector in 2015–16 it becomes evident that these were higher in urban areas compared to rural areas. The highest emoluments can be observed in the "other services" sector, followed by trade and manufacturing (from Table 4.9). A comparison between Tables 4.9 and 4.10 clearly shows that the lowest productivity in manufacturing corresponds to the lowest average annual emoluments. The trend supports the neo-classical hypothesis. Undeniably, this sector is interconnected with the overall economy, as its performance has implications for public policy.

TABLE 4.10

AVERAGE EMOLUMENTS FOR ALL UNINCORPORATED NONAGRICULTURAL ENTERPRISES IN 2015–16

Across India	Emoluments Per Hired Worker*			
Sector Type of Enterprise	Rural (INR)	Urban (INR)	Rural + Urban (INR)	Per Day Emoluments** (INR)
OAE	37,000	65,000	55,000	152.77
Estimated	76,000	93,000	88,000	244.44
All	75,000	92,000	88,000	244.44

Source: Government of India (2018), Economic Characteristics of Unincorporated Non-agricultural Enterprises (Excluding Construction) in India, NSS 73rd Round (July 2015–June 2016), Ministry of Statistics and Programme Implementation, New Delhi.

Note: i) * Emoluments per hired worker in the informal sector. The table is based on NSS 73rd Round Survey (July 2015–June 2016) which covered all the unincorporated nonagricultural enterprises in manufacturing, trade, and other services sector (excluding construction). It did not cover enterprises registered under the Companies Act of 1956, the electricity units registered with the Central Electricity Authority (CEA), government, and public-sector enterprises, and cooperatives were outside the coverage of the survey.

ii) ** Author's calculation based on NSS data.

Table 4.10 shows annual emoluments per hired worker for all incorporated nonagricultural enterprises. The last column shows the per-day emoluments for different types of enterprises, namely OAEs, establishments, and overall. It is noteworthy that the per day emoluments for OAEs are the lowest at

only INR152 while establishments and overall amounted to INR244.44. However, these figures fall significantly below the minimum wages for unskilled workers in agriculture under the central sphere, which range from INR211 (Area C) to INR213 (Area B) to INR234 (Area A). For highly skilled workers, the minimum wages are even higher at INR256, INR286, and INR308, respectively) [29].

From the aforementioned analysis, it is evident that different measures used to calculate labor productivity for the formal and informal sectors lead to the same conclusion: productivity is lower in the informal sector compared to the formal sector. Moreover, the productivity differences are reflected in the wage differentials across activities and sectors, which have implications for poverty and inequalities. The next section in this chapter identifies the issues related to the informal sector.

ISSUES RELATED TO THE INFORMAL SECTOR

Informal jobs are heterogeneous and are often termed low-productivity jobs. However, it is important to understand why informal jobs are constrained with productivity blocks. Various studies attribute this phenomenon to several factors, including jobs of low quality, low skills, poor market information, lack of product or process innovation, low technological advancements, low wages, fund crunch, reliance on multiple sources of livelihood for subsistence¹⁸, poor working conditions (such as cramped workspaces or insufficient electricity), delayed payment of already meager wages, and low bargaining power to demand their share of value-added benefits [30–33]. Further, the low productivity and poor working conditions have a detrimental impact on the well-being and decent living standards of the informal sector workers that can potentially hinder the overall economic growth of the country.

Another important aspect that requires attention is the close linkages and complementary nature of the informal and formal sectors. As Dasgupta [33] observes that “the informal sector connects to the formal sector at multiple points, such as individual transactions, subsector networks of commercial relations or a value chain of subcontracted relationships. In a majority of these contacts, the rules of the game are set by the formal sector. Within the informal sector, there is always the risk that nonwage cost cuts, such as a cramped workspace or insufficient electricity are borne by the worker. Indeed, these risks can lead to the rejection of goods and delayed payment of already low wages.”

The recent pandemic, one of the worst in a century, has heightened the vulnerability of informal workers. The imposed lockdowns resulted in mass return migrations, and simultaneously, exacerbated the woes of both rural and urban economies. Those who returned to the rural areas could not get absorbed in gainful activities as the rural nonfarm sector involves few demand-induced activities. The agricultural sector has already reached its limit to employ additional labor migration that led to the proliferation of disguised unemployment (the same activity and income is shared by many) and further precarity. Urban areas experienced a complete cessation of work for informal workers [34–36]. Therefore, there is an urgent need for comprehensive policy interventions to address the issues faced by this sector. It is important to note that separate policy responses should be formulated for manufacturing enterprises and service enterprises as a one-sized-fits-all approach may not be effective.

The informal sector in India has often been associated with exploitation and accumulation as the workers are underpaid and working conditions are so poor [37]. Moreover, “the perusal of similar networks or the absence of network diversification” hinders the transition of informal sector enterprises to the formal sector [30, 38]. This calls for the well-balanced regulatory regime¹⁹ that neither

¹⁸ Mitra (2022), VVGNI book.

¹⁹ Endless compliance, complicated laws, and overlapping regulations are the daunting challenges faced by Indian firms in the formal sector. This also becomes a disincentive for the informal firms and discourages them to register.

underregulates nor overregulates the informal sector. As stated by Dasgupta [33], "a missing regulatory environment can be as regressive as an excessive regulatory environment."

ADDRESSING INFORMALITY

It is now widely recognized that addressing the issue of informality and poverty as well as enhancing productivity in the informal sector requires a multifaceted approach that tackles the root causes of informality. While the simple solution of formalizing the informal sector is often suggested, studies have pointed out that the informal sector itself is reluctant to undergo the formalization process [32]. Therefore, it is crucial to address the question: why the informal sector does not want to get formalized? Or in other words, formalization needs to be understood from an informal sector enterprise's perspective.

Undoubtedly, formalization has certain benefits in the form of social protection, access to various government subsidies and incentives, enforceable commercial contracts, tax breaks, access to formal credit channels, and other advantages. However, it also entails compliance costs that can be burdensome for informal sector enterprises with their low-profit margins. Further, stringent labor laws also discourage them from registration [39]. Therefore, formalization needs to be promoted through awareness campaigns that highlights the benefits of registering informal enterprises. As Dagmar Walter, Director of the ILO Decent Work Technical Support Team for South Asia emphasized, "when the benefits of formality outweigh the costs, rates of informality are likely to decline" [40].

ILO [40] had stated that "the root causes (for informality) include: the legal and institutional obstacles that make it difficult, if not impossible, for either enterprises or workers to become or to stay formal; the policies of national governments that often directly or indirectly constrain employment creation in the formal economy; the absence of or lack of access to strong and effective market and nonmarket institutions; demographic trends, including large-scale rural-urban migration and the HIV/AIDS pandemic; direct and indirect discrimination against women and other disadvantaged groups; and the lack of representation and voice of those in the informal economy. Until and unless the root causes are dealt with effectively, there can be no sustainable move toward recognized, protected, and decent work."

There is a pressing need in creating quality jobs²⁰ [41], enhancing social protection, ensuring labor rights, investing in education and worker skills, providing access of credit to microenterprises, and equipping with other support services. Table 4.11 clearly shows that the root causes of the informal economy are multifaceted, underscoring the fact that legalization or formalization alone is insufficient to promote decent work. It is crucial to establish a supportive infrastructure encompassing strong and effective judicial, political, economic, and other market and nonmarket institutions while ensuring equitable access to these institutions to address the challenges effectively.

²⁰ Poor-quality jobs exacerbate inequality that results in wasted productive potential and reduced aggregate demand [41].

TABLE 4.11

ADDRESSING INFORMALITY BY IDENTIFYING CONSTRAINTS AND DESIGNING APPROPRIATE POLICIES

Types of Securities	Meaning	Constraints	What Needs to be Done?
Labor market security	Poor quality, unproductive, poor remunerative jobs not protected by law	Lacking	Creation of quality jobs with social protection
Employment security	Protection against arbitrary dismissal, regulation on hiring and firing, employment stability compatible with economic dynamism	No	Social security measures need to be introduced
Job security	A niche designated as an occupation or “career”, the opportunity to develop a sense of occupation through enhancing competencies	Lacking	Job security is required under a legal and regulatory framework. Strong and effective judicial, political, economic, and other market and nonmarket institutions and equitable access to these institutions are essential More awareness campaigns explaining the benefits of formalization
Work security	Health security, safety, and health regulations, accident prevention, reasonable working hours, and other relevant securities	No/Lacking	Protection against illness, accidents, provision of medical leave, compensation against accidents, etc.
Skill reproduction	Gaining and retaining skills, through innovative means, apprenticeships, and employment training	Lacking	Training tailored to the realities and needs of diverse workers by recognizing their problems and needs Boosting efficiency and building resilience
Income security	Provision of adequate income	Lacking	Favorable policy interventions: targeted policies, legislative intervention, and good governance Policies to enhance financial inclusion by promoting access to formal financial services
Representation security	Protection of collective voice in the labor market through independent trade unions and employers' organizations and social dialogue institutes	Lacking	Ensuring representation and voice as a fundamental/enabling right to enhance their access to a range of other rights at work

Source: Based on ILO (2002).

The problem of inadequate access to resources, information, markets, technology, public infrastructure, and social services must be addressed to create a “level playing field” (similar rights, facilities, and access) for informal workers and enterprises compared to their counterparts in the formal economy. Besides, special measures may be required to introduce for those particularly disadvantaged or discriminated. Moreover, those employed in the informal economy must have a voice “as a fundamental right and an enabling right” that can improve their access to a range of other workplace rights [32].

POLICY RESPONSES

Table 4.12 summarizes a few of the many measures initiated by the government of India [42–45] in recent years to resolve the issues and challenges in the informal sector. However, the outcome of

these measures will be determined by political will and the efforts made to establish accessible and supportive infrastructure.

TABLE 4.12

GOVERNMENT'S POLICY RESPONSES IN TACKLING INFORMALITY

	Measures Initiated by the Government	Schemes Introduced by the Government
1	Incentivization of formal employment generation	<ul style="list-style-type: none"> Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) since 2016 Aatmanirbhar Bharat Rozgar Yojana (ABRY) with effect from 1 October 2020 that incentivize employers for the creation of new employment as well as social security benefits and restoration of loss of employment during the COVID-19 pandemic
2	Measures for the formalization of the informal sector (with effect from 1 July 2020)	<ul style="list-style-type: none"> eShram portal, the "Udyam" registration will play an important part in the formalization of this sector
3	Income security and inclusive growth	<ul style="list-style-type: none"> The four labor codes are likely to be implemented in the next financial year of 2022–23 Enforcement of codes will eventually aid the creation of the social security fund
4	Support services for improving access to credit and curbing delayed payments	<ul style="list-style-type: none"> Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE)-collateral free credit Pan India RBI-driven Interest Subvention Scheme is a relaxation of interest over the new and incremental term loan Credit Linked Capital Subsidy Scheme (CLCSS) for tech upgradation MUDRA loans and other initiatives Penalizing public sector units failing to clear MSMEs dues within 45 days timeline
5	Capacity building	<ul style="list-style-type: none"> Training and retraining for a new skill that is set under the National Skill Development Mission
6	Awareness campaigns	<ul style="list-style-type: none"> SAMBHAV, a national-level awareness initiative Awareness campaigns under Startup, Stand up India, Skill India, Made in India, and Digital India
7	Digital initiatives	<ul style="list-style-type: none"> Aadhar-linked transactions
8	Legal initiatives	<ul style="list-style-type: none"> Employees State Insurance Act (1948) Minimum Wages Act (1948) Coal Mines Provident Funds Act (1948) Employees Provident Fund Act (1952) Maternity Benefit Act (1961) Contract Labour Act (1970) and other relevant Acts are important for the welfare of the informal economy labor market Introduction of four wage codes*
9	Other initiatives	<ul style="list-style-type: none"> Scheme for Micro & Small Enterprises Cluster Development Programme (MSE-CDP) Common facility centers (CFCs, such as common production/processing centers, design centers, testing facilities, etc.) Infrastructure development consists of projects for infrastructural facilities, including power distribution networks, water, telecommunication, drainage, pollution control facilities, roads, banks Marketing hubs/exhibition centers by associations, with the government of India's assistance, display and sale of products of micro and small enterprises Thematic interventions for training programs, exposure visits, etc. Support to State Innovative Cluster Development Programme

Source: Pew Research Center [42], Press Information Bureau [43], government of India [44], and Business Standard [45].

Note: * The central government notified on four labor codes: Code on Wages, 2019, (notified on August 8, 2019); the Industrial Relations Code 2020; the Code on Social Security, 2020; and the Occupational Safety, Health, and Working Conditions Code, 2020 (the last three were notified on 26 September 29, 2020). These are likely to be implemented by FY 2022–23.

CONCLUSION

In conclusion, the analysis on India's broad pattern of informality and its several dimensions reveals persistent informality despite its huge contribution to the national economy. Informality is not only prevalent in the traditional informal economy, but also in the formal sector at a growing rate due to limited job opportunities in the formal sector. The situation becomes grimmer with the onset of contractual jobs. The proportion of informal employment varies from state to state. The incidence of informality is higher in rural areas and agriculture activities compared to urban areas and nonagricultural activities. Within unincorporated nonagricultural enterprises, trading and other services are more prone to informality than manufacturing.

Gender-bias is clearly evident in informality with more women than men engaged in the informal economy and there is a noticeable gender wage gap. Women are more exposed to higher decent work deficits, necessitating improved employment opportunities and working conditions. This will constitute the first crucial step toward formalization. The study also finds that the informal sector has been facing declining productivity compared to the formal sector. Given the size and magnitude of the informal sector in India and its contribution to the economy, addressing informality and improving productivity require practical approaches, integrated strategies and efforts to facilitate the transition to formal economy. Creation of new formal jobs and prevention of further informalization are the other areas that need immediate attention.

The findings of the study also highlights that informal jobs are characterized by heterogeneity, posing challenges as policy initiatives usually focus on manufacturing segments and exclude the services enterprises. However, the government of India has taken positive steps by eliminating the distinction between the two segments and introduced the new classification of MSMEs, effective 1 July 2020 [46]. The new composite criteria based on investment in plant and machinery/equipment and annual turnover for both segments could help bridge the gap and seemingly is a move in the right direction.

POLICY SUGGESTIONS - DESIGNING AN APPROPRIATE DEVELOPMENT POLICY

To propel India toward becoming the third-largest global economy by 2030, it must achieve higher investment rates and increase exports significantly. The informal sector, largely dominated by microenterprises²¹, plays a pivotal role in employment generation, manufacturing output, and contributing to the service sector-led GDP to the Indian economy. Therefore, there is an urgent need to formalize this sector.

It is important to recognize that sustained economic growth relies on the provision of publicly provided goods and services, including robust infrastructure and education access. Strengthening enforcement mechanisms is equally vital for a country's progress. Adequate tax revenues are essential to support these initiatives but this can only be achieved if both formal and informal sectors participate. If only the formal firms pay taxes while the informal ones remain hidden by avoiding registrations and evading taxes, a policy-driven approach must be pursued to bring the informal sector into the formal fold. This aligns with the long-term goal envisaged by Lewis in his dual economy model of development. However, it is crucial to emphasize that the transition of the informal into the formal sector must be driven by policy incentives rather than forceful policy imposition.

Given this scenario, what should be the response of the government of India?

²¹ It is interesting to note that the majority of enterprises (99.7%) in India are in the unorganized sector and approximately two-thirds of them are not registered. Besides, a large fraction of them constitutes the 'micro' category of the MSMEs, and their operations are carried out with less than five workers (Kapoor and Kowadkar, 2022: Kapoor A. and Kowadkar S. Gradual shift from informal to formal for MSMEs, The Economic Times, 27 April 2022).

At a macro level, the government must undertake policy changes and implement new structures and governance reforms, particularly focusing on environment, social, and governance norms. This is crucial to address the challenges faced by businesses, especially in the informal sector²² post-pandemic, such as increased costs and revenue shortfalls. The requisite skills, talent gaps, and the market competition are the other limiting factors hampering the growth of organizations, irrespective of their size. While large corporations can handle risks with in-house capabilities and budgetary support, the informal sector faces different limitations. Literacy, capacity building, physical infrastructure, support infrastructure (availability and accessibility), and governance reforms²³ are the policy levers that can foster the growth of this sector along with promoting informal entrepreneurship. This, in turn, can lead to job and wealth creation that positively impact the overall growth of the country.

In addition to the above, it is important to acknowledge that units operating in the informal sector (manufacturing and services) have some common challenges related to legal, financial, compliances, and markets, along with distinct hurdles in pursuit of their respective growth agendas. Therefore, a systematic approach is necessary to deal with varying sets and sizes of challenges as a one-size-fits-for-all solution is unlikely to work.

One thing is clear. Policies should align with the specific needs of the informal sector. For example, capacity-building and infrastructure development efforts have to be as per the needs of the firms. In addition, general policies should be designed to be relevant to the informal sector given that a large part of the population will continue to depend on informal firms for their livelihood. The focus should be on assisting informal firms in becoming more productive and ultimately paving the way toward formalization.

In India's context, there is no evidence supporting the view that business subcontracting from the formal sector to the informal sector benefits the latter in terms of employment, productivity, or wages. Therefore, the growth strategy must be redesigned to ensure that the informal sector experiences positive ripple effects and any scope for exploitation by intermediaries and formal sector enterprises is eliminated. The success of the "Make in India" initiative, aimed to establish India as a manufacturing hub, lies in implementing supportive strategies that bridge policy gaps and facilitate spillover effects from the organized to the unorganized sector enterprises, which are surviving at the margins [7].

It will be highly commendable if the Indian government mainstreamed its policy toward the informal sector within its broader development policy. Despite the end of license raj in India in 1991, formal firms are still hobbled by red tape, numerous labor laws²⁴, and overlapping regulations²⁵. To incentivize informal firms to get themselves registered²⁶ and discourage them from remaining hidden, it is crucial for the government to streamline its dealings with formal entities. The government can also motivate formal firms to collaborate with informal firms which can act as an incentive for the latter to gradually transition toward formalization. The government can play an instrumental role in stimulating demand for informal sector goods and services from both the public and private sectors.

²² Especially by micro and small enterprises in the informal sector.

²³ Streamlining red tape, combatting corruption, and implementation of ESG norms.

²⁴ Stringent registration procedures and labor laws act as a deterrent and prevent a unit from transitioning into the formal sector [7].

²⁵ India Today (<https://www.indiatoday.in/magazine/the-big-story/story/20201214-choked-by-red-tape-1746432-2020-12-05>).

²⁶ Lowering registration costs; shorter registration procedures; streamlined registration services, lower compliance costs by introducing simplified tax assessment and payment regimes; improved access to financial services; and improved access to training, skills development, and business development services, and others (as suggested by ILO, 2016) are the reforms required to incentivize the informal sector firms. Digitalization can play an important role in the management of the issues faced by these firms.

The 2019–20 Economic Survey points out the new firm creation in India has gone up dramatically since 2014. However, the data does not fully capture this development because a large number of enterprises operate in the informal sector [47]. This further necessitates the importance of implementing enabling policies, such as tax breaks, formation of supporting networks among informal entrepreneurs themselves, handholding enterprises in the informal sector by the formal sector organizations, and carrying out awareness campaigns on the advantage of formalization. These can provide incentives for those in the informal economy that have enjoyed greater autonomy, flexibility, and freedom in the operations to transition to the next step, i.e., formalization of their operations. It must be acknowledged that the role of statistics in this whole process cannot be undermined. These collective measures can help to elevate the overall economic growth of India.

India has taken commendable steps to address informality by introducing measures, such as launching the eShram portal, notification of four wage codes, and providing incentives for formal employment generation and skill development. However, the effectiveness of these measures depends on their successful implementation and enforcement. Strong political will and robust governance are critical in reducing the magnitude of informality and ensuring a decent life for all.

Delechat and Medina [48] rightly point out that “sustainable development requires a reduction in informality over time, but this process will inevitably be gradual because the informal sector is currently the only viable income source for billions of people. Informality is best tackled by steady reforms, such as investment in education, and policies that address its underlying causes. Attacks on the sector motivated by the view that it is generally operating illegally and evading taxes are not the answer.”

CHAPTER 5

MONGOLIA

EXECUTIVE SUMMARY

Mongolia transitioned to a market economy in 1991, leading to growth of the private businesses and the informal economy sector. The informal sector now makes a significant contribution to Mongolia's GDP and employment. However, it lacks proper documentation and surveys, and its development remains weak. Workers in the informal sector operate outside the realm of the law and established civics norms. They are not officially registered, do not pay fees, and bear no responsibilities for their production and services.

INTRODUCTION

A survey [1] was conducted to examine the impact of the global COVID-19 pandemic on employment, enterprises, and livelihoods of informal economy workers, along with the effectiveness and accessibility of government responses to the crisis. It found that the pandemic had several adverse effects on informal employment:

- i) **Reduced employment** - Lockdown measures led to a larger share of employees and own-account workers not being able to work compared to employers. Statistical analysis highlighted that certain sectors were hit the hardest, like accommodation, transportation, construction, and manufacturing. Informal workers were likely to have lost their employment during the pandemic, especially those with higher education levels. Among those who worked during the period, seven out of 10 individuals shared that the enterprises' level of activity where they worked declined, and slightly more than one tenth said the enterprises temporarily closed.

Many enterprises experienced declining activity and some temporarily closed, particularly those in wholesale and retail trade, manufacturing, and other services. Temporary closures were seen in hotel accommodation and food services. Average weekly working hours also decreased by six to seven hours during the pandemic with female employees and own-account workers experiencing a more acute decline compared to their male counterparts. By economic sector and status of employment, the most affected were employees in the manufacturing sector, own-account workers in the construction sector, and employers in construction, transport, and warehousing.

- ii) **Reduced income** - Net earnings declined across all employment statuses by 57% for employers, 55% for own-account workers, and 40% for employees. Male workers saw a more significant decline in net earnings than female workers. By economic sector and status of employment, the biggest declines were for employers and own-account workers in construction and for employers in manufacturing. Almost half of informal employment workers reported that their household income was insufficient to cover living expenses during the pandemic.
- iii) **Livelihoods threatened** - More than 60% of informal employment workers said they did not receive adequate assistance to cover their living expenses. The great majority of the workers found

official lockdown measures impacted their livelihoods, making it “difficult” or “very difficult” in terms of reduced hours of work or business operations, temporary or permanent job stoppage or closing down of businesses, reduced salaries or earnings, rising prices of inputs, disruptions in the supply of essential raw materials, and difficulties in making effective business and investment decisions.

The Mongolian government partnered with foreign research institutions to conduct surveys on the informal employment sector, leading to the validation of various policies for employment development and support. However, there is a lack of focus on the informal sector’s productiveness and its transition to the formal economy.

Informal employment constitutes a significant portion of the Mongolian labor market and plays a crucial role in its economic development. About 26.8% of the workforce, totaling 209,878 individuals, is engaged in informal labor in the nonagricultural sector. From this figure, 79,800 are informal own-account workers in the formal sector, 126,600 are informal, and 3,478 are in family businesses. Informal female workers tend to have higher education levels with an average of 11.8 working years. Common types of informal businesses include wholesale and retail trade while private business services and part-time jobs are less developed.

Several reasons have been identified for why the informal sector struggles to transition to the formal sector. They include high tax and fees pressure (63.5%), weak knowledge about business, tax, and fees (31.8%), accounting issues (28.6%), registration importunity (26.8%), lack of equipment and fixed assets (25.3%), and a small percentage of individuals who are content with their current situation. Only 40% of informal workers are genuinely interested in leading businesses. However, despite the challenges, most informal workers aspire to transition to the formal sector.

According to the experts, there are several merits associated with the informal sector workers transitioning to formal businesses:

- i) Informal sector workers are interested in starting up businesses and they already have satisfied customers. They possess a keen sense of customers’ needs, manage procurement efficiently, and have savings to reserve raw materials for peak periods, such as national holidays, to maintain continuous production and marketing.
- ii) The transitioning process brings various advantages, including more opportunities for employers and self-employed individuals to earn higher income, expand their selling capabilities, attract more customers, and create additional job opportunities.
- iii) Formalization leads to the regulation and increase of salaries or income for workers.
- iv) Workers have access to social protection through social and health insurance and other support activities, in case of accidents or injuries.
- v) Informal workers receive better understanding and promotion of the necessary support for transitioning to the formal sector.

However, the challenges faced by informal sector workers are similar to those mentioned above. One particular aspect is that during program development, it is essential to consider that different groups in the informal economy have different interests. For example, young workers may want to establish their businesses quickly while self-employed individuals who are working in construction and industry sectors want to transit quickly to the formal economy. On the other hand, workers in the transportation sector may not be in a rush to transition and register.

TABLE 5.1

INFORMAL EMPLOYMENT BY REGIONS AND CAPITAL CITY ULAANBAATAR [2]

Units of Informal Employment	Western	The Khangai	Central	Eastern	Ulaanbaatar	Total
Manufacturing	21.7	20.5	17.2	18.5	19.9	19.7
Construction	2.6	2.4	3.2	1.3	4.4	3.5
Wholesale and retail trade	55.3	54.2	52.0	55.0	53.6	53.7
Transportation and storage	7.1	5.8	11.9	7.5	6.6	7.4
Accommodation and food service	5.6	5.8	6.6	8.3	3.8	5.0
Other services	5.8	7.9	5.0	7.8	6.1	6.3
Others	1.9	3.4	4.2	1.6	5.6	4.3
Total	100	100	100	100	100	100

Note: The territory of Mongolia is divided into four economic zones: Western, the Khangai, Central, and Eastern. Ulaanbaatar is the capital city that is populated by more than half of Mongolia's total population.

REVIEW AND DEFINITION OF MONGOLIA'S INFORMAL SECTOR

Government Policies in Promoting the Informal Sector and its Productivity

The Mongolian government has taken several initiatives to promote and support the informal sector and enhance its productivity. These efforts are outlined in key policy documents, such as the Government Action Plan for 2020–24 [3], the State Employment Policy for 2016–25 [4] and Mongolia's long-term development policy "Vision–2050" [5].

Mongolian laws, including the State Employment Policy, the Law on Occupational Safety and Hygiene, and the Social Insurance Law take into consideration matters related to informal employment. For instance, the State Employment Policy [6] mandates that all entrepreneurs, service deliveries, and self-employed individuals must participate and be involved in various types of employment support initiatives. These initiatives encompass professional consulting, training, access to small loans, financial support, and business incubation services.

Informal employers have the opportunity to voluntarily obtain insurance coverage under the Social Insurance Law that includes provisions for retirement insurance, social welfare insurance, industrial accident insurance, and insurance for professional-caused diseases. The continuous renewal of laws has facilitated better access for informal employers to engage in social protection.

Addressing informal employment is also highlighted in Mongolia's long-term development policy, "Vision–2050" [5]. This policy emphasizes the registration of workers in the informal economy and their inclusion in social insurance.

The State Employment Policy's [6] objective is to reduce the percentage of informal employment to 11.7% by the year 2025 while simultaneously increasing the number of workers covered by paid social insurance to 1,220,100 in 2025.

Despite the development of laws and the clauses related to the legal registration and formalization of the informal sector through state service, there is still a lack of proper regulation, coordination, and specific policies or programs to effectively transition informal workers to the formal sector. The absence of important policy documents, such as those related to the registration of informal workers and their inclusion in social insurance, contributes to the challenges faced by the informal economy.

The state's concept and policies regarding informal employment are not being effectively implemented and there is weak multisectorial coordination. These factors jeopardize citizens' labor rights, labor relations, and social protection, and have a negative impact on GDP, the Social Insurance Fund, and tax income.

State Study and Analysis of the Informal Sector in Mongolia

The following statements are based solely on National Statistics Office (NSO) numbers from 2020 [7]. According to the statistics provided by the NSO, there were more than 1,146,200 employers working all over the country in 2020 (overall population in the same year was approximately 3.294 million). Out of these number, 783,358 (74.5%) worked in nonagricultural sector while 269,000 (25.5%) in the agricultural sector. Within the nonagricultural sector, 209,878 (26.8%) workers were engaged in informal labor, comprising 133,478 males and 76,400 females. These statistics highlight the significant presence of informal employment in the Mongolian labor market, making it an essential and remarkable sector in the country's economic development.

TABLE 5.2

INFORMAL EMPLOYMENT IN 2017–20

No.	Years	Total Employees in Nonagricultural Sector	Total Informal Employees in Nonagricultural Sector	Female	Male	Percentage (%)
1	2017	881,910	220,677	131,263	89,414	25%
2	2018	918,922	219,996	131,688	88,308	23.9%
3	2019	856,001	195,248	113,568	81,680	22.8%
4	2020	783,358	209,878	133,478	76,400	26.8%

The informal economic sector represents a large workforce and it significantly contributes to family incomes. Out of the informal own-account workers, 79,800 are working in the formal sector, 126,600 are informal, and 3,400 are involved in family-based businesses. However, large percentage of people working in the informal sector lack access to transition to the formal economic sector and lack the necessary tools to increase their income, which may be a reason why they continue to stay in the informal sector.

On their education level, 9.9% of informal workers have secondary education or lower, 51.4% have higher education, 9.8% have college education, and 28.4% have university education. Interestingly, women tend to have higher levels of education compared to men.

The average number of years worked in the informal sector is 11.8 with 68.8% of workers remaining in the current position for at least eight years. About 60% of informal workers work by their scheduled working hours, which accumulates to approximately 58.09 hours per week. This suggests that many of them work beyond the 70.1 hours specified by the Labor Law. Employers work for about 60 hours while workers and own-account workers work for 56.9 hours and 56.1 hours per week, respectively. Men tend to work more hours than women at around 58 hours and there is a higher representation of women in the self-employment sector.

Informal workers coordinate their job arrangements outside the realm of formal employment, tax, health, and social insurance laws. The informal sector remains officially unregistered, have no obligation to pay fees, or adhere to regulations concerning production and service. Additionally, there is some informal employment within the formal sector.

Ulaanbaatar, being the capital city, is home to more than half of the total population, making its informal economy an important aspect to consider. The causes for its existence include a lack of economy

diversification, insufficient formal sector job opportunities, high barriers to transitioning into the formal sector, lack of informal economy policies, and ineffective implementation of the said policies as well as the many difficulties faced by informal workers when seeking formal employment. Only 40% of workers chose self-employment based on their interest.

On the state of informal employment in Mongolia, the survey report [1] aims to clarify the impact of the COVID-19 pandemic on informal employment workers and to inform the planning and implementation of government policy regarding informal employment. The framework of its main study objectives are:

- Present a clear picture of the current state of informal employment in Mongolia
- Describe working conditions and labor relations among those in informal employment
- Identify the reasons for informal employment, determine opportunities and pathways for informal employment workers to transition to formal employment, and clarify their outlook on future business and social security
- Collate opinions regarding measures and projects, including employment policies and measures to be implemented by government agencies
- Determine the impact of the COVID-19 pandemic on informal employment workers and the extent to which government support policies and programs have been accessible to informal employment workers during the pandemic
- Assess how informal employment affects citizens' labor rights, labor relations, social security as well as its impact on the country's GDP, social insurance fund, and tax revenues

The informal employment in Mongolia is categorized as the following:

- 53.7% are engaged on wholesaling and retail trade, and car and tire repair
- 19.7% are in processing production
- 7.4% are in transportation and storage
- 6.3% are in other service sectors
- 12.9% are apportioned to food service, accommodation, and others

Wholesaling and retail trade dominate informal employment thus it requires an in-depth analysis of its structure and types. Within this category, 37.6% are involved in selling food products, 29.3% in clothing, 8.2% in car maintenance, 9.5% in domestic appliances and building materials, and 25.4% in agricultural products.

About 63.9% of builders work in Ulaanbaatar while hotel and food service workers (61.5%) are concentrated in the rural regions. Other service sector workers are almost equally distributed between the city and rural areas. The other sectors include babysitting, tutoring, private consulting, online service, and cover a large workforce today.

Common informal work in Mongolia includes:

- **Manufacturing:** Part-time workers, washers, cleaners
- **Construction:** Part-time workers, building cleaners, keepers
- **Wholesale and retail sale:** Central market sellers, street sale, unlicensed tommy-shops, and workers in lunch counters, butcher shops, jumble shops, fence shops
- **Transportation:** Independent taxi drivers, unlicensed local transportation, car wash, car repair, tire repair
- **Accommodation:** Part-time workers, washers, cleaners
- **Food service:** Kitchen helpers, part-time workers, individual cooks, street food vendors
- **Others:** Shoeshiners, street sellers, buskers, street food vendors, and many more

Informal Sector Productivity and the Transition to Formal Sector

The state lacks reports on the productivity of the informal sector and does not have specific planning or related documents for transitioning informal businesses to the formal sector. Nonetheless, 57.3% of the informal employers and informal workers and 50% of self-employed workers have expressed interests to transition to the formal sector.

Some larger companies have begun analyzing their productivity. The NSO 2020 [7] has defined labor productivity as the share of GDP per worker, which was MNT22.7 million (USD6,900) in 2020. Productivity in the construction and food service sector is lower by around 2–3 times than other sectors. Over 53% of informal workers are engaged in wholesale and retail trade, and their productivity is similar to the national indicator. To improve productivity, businesses need to focus on knowledge, innovation, and cost effectiveness.

Since 2003, the World Bank has conducted surveys to identify challenges in running businesses and clearing obstacles. In 2020, Mongolia ranked 81st out of 190 countries with 67.8 points in the overall ranking and 100th with 86.7 points in the business start-up indicator. This indicates that both established businesses in the formal sector and new businesses faced numerous challenges in Mongolia.

Several factors hinder the transition of the informal sector to the formal sector. They include:

- 63.5% of the respondents expressed concerns about increased tax and additional fees burden that comes with formalization
- 31.8% lack adequate knowledge about tax and fees
- 28.6% face accounting issues
- 26.8% struggle with registration difficulties
- 25.3% cited a lack of equipment and fixed assets

- A small percentage of informal workers resist changing their current situation due to a number of reasons. Some are approaching retirement age or feel they are just too old for the transition. Some don't like being bound to tight schedules and there are those who prefer to run their own small businesses without external pressure. Others have cited reasons such as lower salaries, limited job opportunities and stringent age, gender, and profession requirements, leading to disinterest in the formal sector

Nevertheless, according to research findings, a significant number of informal workers expressed their interest in transitioning to the formal sector. This response provides a starting point to introduce and widen the formalization initiatives for the informal sector. To facilitate this transition, a comprehensive program needs to be developed while taking into account the cost, effectiveness, youth interest, and educated self-employed individuals.

In developing the transition program, it is essential to address the main challenges faced by informal workers. Self-employed individuals often lack knowledge about tax, social insurance deductions, and fees, and they encounter accounting issues and other complexities during the legal registration process. Workers also face skills gap in their business. In other words, to support the transition process, it would be crucial to provide training in accounting and tax matters, provide access to up-to-date information, simplify the registration process, and possibly provide temporary exemptions from social insurance fees and tax.

The Mongolian government, in collaboration with UNDP, United States Agency for International Development (USAID), World Bank, ADB, and various international and local NGOs (WV, ADRA, etc), is working to develop the informal economy in Mongolia based on the research findings mentioned earlier. The Employment Support Fund, under the Ministry of Labor and Social Protection, provides financial support and microbusiness loans to around 4,800 own-account workers and self-employed individuals (2.4% of the total informal workers) annually. Every year from March to April, the ministry receives the proposals of small business projects from the informal workers and selects the training organizations. However, the number is still too small and the process needs improvement as it lacks adequate monitoring and final evaluation. To enhance the program's effectiveness, community participation, including local NGOs, should be increased for selection of the beneficiaries, strong monitoring system, capacity building, and skills development.

According to 68% of the respondents, there is a significant lack of information and this keeps them from accessing state and other support. To address this issue, the government should empower state-sent home visitors to assist low-livelihood households, conduct mindset-changing trainings, and provide additional information sources to improve awareness and participation in support programs.

EXPERT ASSESSMENT [8] AND PRODUCTIVITY ANALYSIS OF THE INFORMAL SECTOR IN MONGOLIA

Overview of Current Policies and Critical Appraisal

The most significant laws generated and passed include the Law of Employment Promotion, the State Employment Policy, and the Employment Support Program 2022–2023.

The Law of Employment Promotion (2011) is currently being reviewed by the Ministry of Labour and Social Protection, in partnership with other organizations, including local NGOs.

The State Employment Policy [4] targets a reduction in informal employment percentage to 11.7% in 2025, and simultaneously, increase the number of paid social insurance to 1,220,100.

The Employment Support Program 2022–2023 [9] has been active since February 2022, but no final report, survey, and evaluation has been released. The main purpose of this law is to prepare employable adults from families where individuals are unable to work and need social welfare and support for employment, job placement, and to increase employers' participation in labor relations.

The Employment Support Fund under the Ministry of Labor and Social Protection provides financial assistance and microbusiness loans to approximately 4,800 own-account workers and self-employed individuals each year, which makes up to 2.4% of the total informal workforce. However, a major issue is that 50% of the budget is allocated to students' scholarship for vocational schools, rather than being directed toward supporting the informal sector. The scholarship funds should be budgeted separately in the state budget to address this discrepancy.

Currently, there is no specific legislation addressing informal employment in Mongolia. However, the three aforementioned laws and policies indirectly regulate informal economy relations. Despite this, there remains a significant gap that prevents the informal sector from transitioning to the formal sector.

While there are laws and clauses aimed at legal registration, protection, and improvement of working conditions for the informal sector as well as promoting productivity and cooperation, there is a lack of coherent regulation and coordination. Further, there are no specific policies or programs currently in place to formalize the informal sector, nor are there important policy documents concerning the registration of informal workers and their inclusion in social insurance. Consequently, despite the informal sector's substantial contribution to Mongolia's market economy, it lacks the necessary protection, support, and empowerment to fully transition to the formal sector.

The laws and policies are developed and implemented differently. Some are robust while others are not. A major weakness lies in the state's monitoring and evaluation system, which is severely lacking or almost nonexistent. There is a pressing need to increase community participation, including involving local NGOs in selection of the beneficiaries, establishing a strong monitoring system, and advocating for improved laws and their implementation within state services.

Assessment Summary [8]

To shed light on the informal sector's productivity, a national expert team conducted a recent survey among informal businesses in Ulaanbaatar. The participants consisted of 32 informal businesses. The survey aimed to gather information on various aspects that can help clarify the sector's productivity, including basic business types, business leading duration, daily working hours, rest time, human resources, monthly income, savings, insurance, tax, age, gender, productiveness, education, and transitioning potential.

The following is the list of the respondents who participated in the survey:

- Cook
- Street retail seller (++++)
- Sewer worker (++++)
- Felt product maker (+)
- Wool product maker
- Educator

- Yoga teacher
- Contortion teacher (+)
- Stationery trader
- Seamstress
- Hairdresser
- Beauty technician
- Tire repairer
- Clock repairer
- Masseur
- Tea room employee
- Self-employed (6)

Assessment [8] Questions

The list of questions and answers are provided in Appendix 1.

Findings from the Expert's Assessment [8]

The findings provided good insights into the issue of informal employment and productivity. The summary of the assessment results are:

- The majority of informal workers are women while only 25% are male
- Informal employers with university and college education are more involved in public services, production, and manufacturing
- Leading businesses are categorized into start-up (9.1%), growing step (30.3%), developing step (24.2%), and sustained step (21.1%)
- Businessmen with over 12 years of experience have higher sales revenue of more than MNT4,000,000. They have satisfied customers and exhibit a good understanding of them. The businessmen also manage procurement well and have savings on reserve to buy raw materials for peak periods, like national holidays, for continuous production and sales
- Based on supermarkets and service centers' timetable, workers usually work 7–8 hours a day and have 1–2 off days a week
- Some workers are dedicated to their businesses and work 9–10 hours a day with a weekly off day. They manage their businesses from homes or rented premises. Their work involves providing ordered products and services. Many are skilled professionals. However, a common issue they face is that they prefer to work alone, which means that when they fall ill or encounter unforeseen events,

they lack the human resources to fall back on. This presents a significant challenge for these businessmen

- Women start their businesses around age 25 while male begin at age 45
- Most informal workers, including family members and a few partners, are mostly involved in manufacturing, public service, and retail sales
- The average working year is 7–11, and the monthly income ranges from MNT800,000–MNT1,300,000. The common causes that hinder development at the working place are rent pressure, loan repayments, and family needs
- Informal workers with vocational education, such as cooks and hairdressers, usually work in their professional fields while others, such as teachers, journalists, and accountants, work in retail sales
- The reasons for working in the informal sector are down to individual interests and the lack of formal job opportunities
- Women work based on their individual interests
- Most men often cannot find formal jobs
- Low-interest loans are considered crucial support for transitioning to the formal sector
- Transitioning challenges include taxes (income tax, value chain tax, social insurance fees), social insurance fee, lack of knowledge, accounting skills, high rental, and none or limited access to microbusiness loans and state procurement

The findings of the national expert of this chapter regarding transitioning from the informal to formal economy are:

- During program development, it is essential to consider that different groups within the informal economy have different interests, dependent on different sectors. For example, young workers and employers may prioritize a swift transition to the formal economy while self-employed individuals in construction and industry sectors may also seek quick formalization. In contrast, workers in the transportation sector might not be as eager to transition and register
- These diverse groups require different types of employment support that are tailored to their specific needs
- Employers and the more educated informal workers expressed that the most important motivation for transitioning to the formal economy is to exempt their businesses from income tax, value-added tax (VAT), and social insurance fee
- High indicators, excessive taxes, steep rents, and legal complexities can delay and present challenges during the transition process
- Implementing e-registration in the informal economy and ensuring its user-friendliness, along with promoting its adoption, is important in facilitating the transition

Against the negatives, informal workers and self-employers are seeking their business future with hope and optimism. The merits of the transitioning process include:

- Registration provides more opportunities to employers and self-employed individuals to get more income, sales, customers, and job opportunities. For informal workers, their salaries will now be regulated and increased and their social protection against accidents and injuries is improved through social and health insurance and other protection measures
- A growing understanding and promotion of supportive transitioning measures, such as business loans with lower interest rates, higher paying working places, and labor brokering services

However, the demerits of transitioning involve a number of challenges, such as high taxes, social insurance fees, and other financial pressures as well as no or limited knowledge of the law, accounting issues, registration difficulties, lower education levels among informal workers, lack of available working places, and high economic indicators.

The main motivation tools for the transitioning process include:

- Offering discounts on rental of working place and business premises
- Exempting construction employers from taxes and involving them in state procurement
- Providing entrepreneurs with exemptions from income tax, VAT, and social insurance fee for a specific period as well as provide discounted rental, low-interest loans for microbusinesses, and participation in state procurement

According to the survey, 71.9% of respondents emphasized the importance of employment support, including financial assistance with repayment, microbusiness loans, and start-up business support. Further, about 48% expressed the need for business training, and 37% sought for professional skill training. Informal workers prefer to use online sales and marketing methods.

The measurement of productivity in the informal sector, whether for workers or enterprises, is a significant question for the Labor and Social Protection Ministry as well as research institutions and NGOs. However, there are challenges in calculating the productivity of the informal sector and the country expert has not come across any established traditional or national approach to address this issue.

Following the advice from the Asian Productivity Organization (APO) team, the researchers for this chapter adopted a method to calculate productivity. Using this approach, productivity is determined by dividing the value added by the number of workers in an enterprise. To estimate the value added, the value of gross output is deducted other than capital and labor from the value of gross output. This formula allows to gain insights into the productivity levels within the informal sector.

From the data, it is evident that productivity is calculated in various ways and depending on factors, such as business types, workers' education level, experience, business skills, and knowledge. For example, some respondents were unable to provide a clear breakdown of income and expenses, including factors, like workforce costs, rent, salary, loan interest, utility costs, and others.

TABLE 5.3

PRODUCTIVITY IN THE INFORMAL SECTOR [8]

Types of Informal Business	Gross Output/ MNT	Input/MNT	Value added		Number of workers	Productiveness	
			MNT	%		MNT	USD
Construction	4,000,000	3,400,000	600,000	15	2	300,000	86
Beauty service	4,000,000	1,120,000	2,880,000	72	2	1,440,000	411
Yoga teacher	4,000,000	1,600,000	2,400,000	60	1	2,400,000	686
Food trade	2,000,000	1,400,000	600,000	30	2	300,000	86
Retail	2,000,000	1,540,000	460,000	23	2	230,000	66
Primary part-time teacher	2,000,000	460,000	1,540,000	77	1	1,540,000	440
Tailoring/sewing	2,000,000	900,000	1,100,000	55	1	1,100,000	314
Hairdresser	2,000,000	840,000	1,160,000	58	1	1,160,000	331
Tea room	2,000,000	1,320,000	680,000	34	2	340,000	97
Masseur	2,000,000	580,000	1,420,000	71	1	1,420,000	406
Beauty technician	2,000,000	1,300,000	700,000	35	1	700,000	200
Tire repairer	2,000,000	650,000	1,350,000	68	2	675,000	193
Home tailoring	900,000	693,000	207,000	23	1	207,000	59
Contortionist	1,150,000	138,000	1,012,000	88	1	1,012,000	289
Felt maker	1,300,000	360,000	940,000	72	1	940,000	269
Masseur/part-time	1,080,000	108,000	972,000	90	1	972,000	278
Wool product maker	1,200,000	744,000	456,000	38	1	456,000	130

CONCLUSION AND RECOMMENDATIONS

Despite the efforts to develop the informal economy in the country, the laws and policies lack effective implementation. Experts participating in online focus group discussion (FGD) identified several reasons for the slow development of the informal economy, including the lack of economic diversification, insufficient formal working opportunities, high barriers to formalization, and weak enforcement of laws and policies.

To address these challenges, the following recommendations have been proposed:

- Conduct a nationwide productivity survey for both informal and formal sectors
- Collaborate and advocate with state organizations to strengthen the legal framework
- Promote productivity in the business sector
- Enhance partnerships with the organizations, like the Mongolian Productiveness Organization, for quality survey
- Encourage informal workers to overcome challenges and transition to formal employment
- Foster strong networking within the informal economy sector

These measures aim to create a more conducive environment for the development and formalization of the informal economy in Mongolia.

APPENDIX

Assessment Questions [8]

#1. What are your basic business types which bring income to you?

The retail selling (7.4%), felt making and sewing (11.1%) are the common ones. Common business types of informal sector are:

Construction

Beauty service

Yoga teacher

Food trade

Retail

Primary part-time teacher

Tailoring/sewing

Hairdresser

Tea room

Masseur

Beauty technician

Tire repairer

Home tailoring

Contortionist

Felt maker

Masseur/part-time

Wool product maker

#2. How long have the workers been in their informal business?

30.3% are the highest proportion and represents people who have been running their businesses for 1–3 years. This means that after COVID-19, particularly young people are trying to generate income in the field. Following this, 24.2% are 4–7 years; 21.2% are 8–11 years; 15.2% are more than 12 years. The lowest percentage is 9.1%, comprising young informal workers with just one year experience. The data shows that informal employment has been sustained over the years and it is interesting to observe how the situation is regulated and transformed in Mongolia.

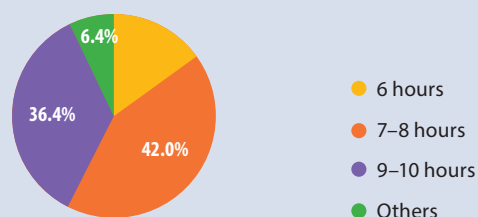
#3. How long do you spend at your business in a day?

#1 42% of the respondents work over 7–8 hours

#2 36.4% are 9–10 hours

#3 15.2% are 6 hours

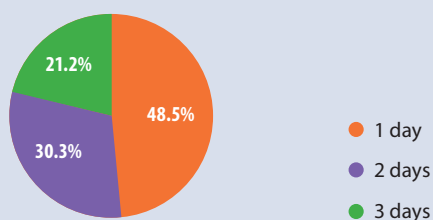
Q3: Working hours in a day



#4. How many days do you rest in a week?

- | | |
|----|----------------------------|
| #1 | 48.5% have a day of rest |
| #2 | 30.3% have 2 days off |
| #3 | 21.2% do not have off days |

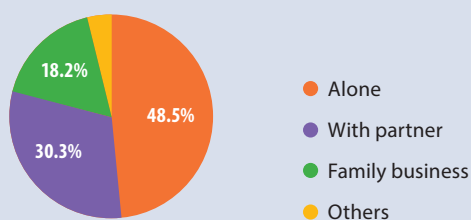
Q4: Day off in a week



#5. Are there any persons who help your business?

48.5% work alone, 30.3% have partners, and 18.2% run family business. The highest percentage featuring the solitary workers shared that the majority of informal workers don't work in groups or teams.

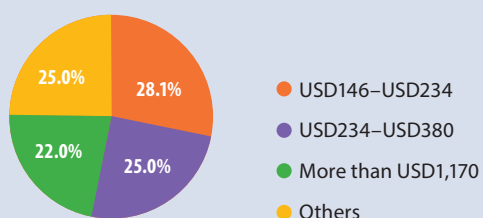
Q5: Are there any persons who help your business?



#6. How much is your income in a month?

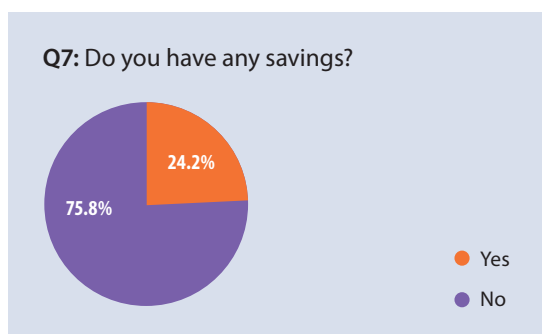
- | | |
|----|------------------------------------------------|
| #1 | 28.1% get MNT500,000–MNT800,000/USD146–USD234 |
| #2 | 25% get MNT800,000–MNT1,300,000/USD234–380 |
| #3 | 21.95% get more than MNT4,000,000 MNT/USD1,170 |

Q6: Income per month



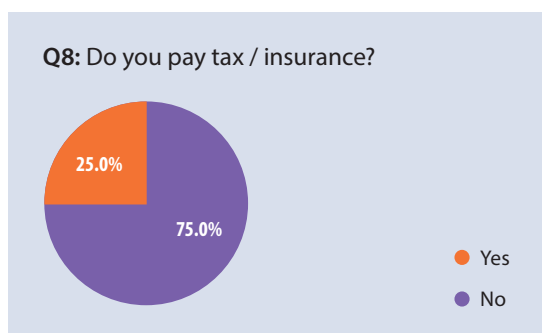
#7. Do you and your family have savings?

75.8% of the respondents don't have savings.



#8. Do you pay any tax and insurance?

75% of them stated that they pay for health and social insurance because not doing so would mean having to pay for medical services out of pocket and be lacking of social protection, including retirement benefits.



#9. Could you work or run your business without any breaks?

- Yes - 11
- Family shortage - 2
- Order - 4
- Financial challenges - 5
- Cold working place - 3
- No one to look after babies - 3
- Seasonal work - 3

34% of them can run their business without any breaks while 66% have encountered challenges.

#10. Do you need a loan to run your business?

- Yes - 22
- Training - 2
- No loan - 8

#11. Please assess your ability to work with productivity on a scale of 1 to 5 points.

#1	3%	1 point
#2	15.2%	2 points
#3	42.4%	3 points
#4	27.3%	4 points
#5	12.1%	5 points

42.4% of them answered they can work with productivity, but with no mention if they would do so.

#12. Do you have any plan to expand your business in the next three years?

- Have a working place to be free from rent - 18
- Get a loan - 3
- Study the market - 2
- Add product types - 2
- Skill human capacity - 2
- No plan - 5

#13. Do you have an interest to transition into the formal sector? What advantages will you have then?

- Become a private limited company (LLC) - 4
- Become a cooperation - 3
- Become group - 2
- No interest - 6
- Decide later - 17

#14. Do you have comments on becoming part of the formal sector?

- No - 13
- Get a loan without much bureaucracy - 6

- Minimal state participation - 2
- No taxes - 3
- Purchase equipment - 2
- Don't know - 6

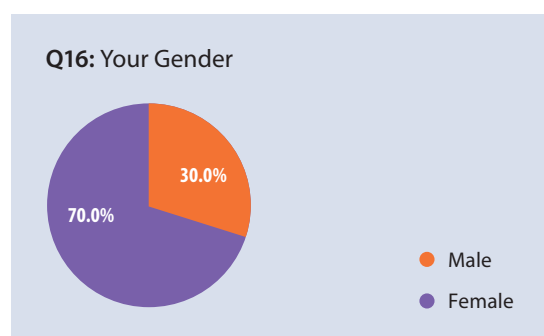
#15. What is your age?

#1	31.3%	40–45
#2	25%	25
#3	18.8%	46–50
#4	9.4%	51–60

31.3% of the informal respondents are in the age bracket of 41–45, 25% are 25 years old, and 18.8% are between 46–60.

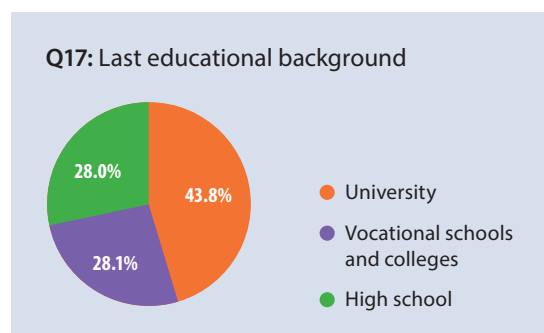
#16. What is your gender?

70% are female and 30% are male



#17. What is your education level?

43.8% have graduated from the universities, 28.1% were educated at vocational schools and colleges, and 28% have finished high school.



CHAPTER 6

PAKISTAN

EXECUTIVE SUMMARY

This report provides an overview of the informal sector in Pakistan, which contributes a significant percentage to the country's GDP and employs 73% of nonagricultural workers. The informal sector has multilevel complementarities with the formal sector in Pakistan. Both informal sector enterprises and informal workers face serious challenges which limit their productivity and wellbeing. The current regulatory climate makes formalization difficult while also posing significant costs to existing informal enterprises. An empirical analysis of informal enterprises shows that the informal economy exists because of the difficulty of formalizing informal enterprises and a lack of adequate jobs in the formal economy. Nevertheless, there are significant productivity gaps between the formal and informal sectors, which indicate the need to reduce the roadblocks for businesses and workers to enter the formal sector.

The report concludes with a discussion on policy gaps and policy recommendations. To address these gaps and foster formalization, several key strategies are proposed. First, building broad-based support for legislative efforts. This will reduce regulatory hurdles for establishing formal enterprises and the process can be continued even with changes in government. Second, conducting systematic studies on how taxation systems can be enhanced to increase firm-level productivity. Third, continuing with financial inclusion initiatives that reduce finance-related barriers to smaller enterprises. Lastly, building support to push for the enactment and implementation of recently enacted labor laws for informal workers and enterprises while also bringing more categories of informal workers within the fold of existing legislation.

INTRODUCTION

Pakistan is defined by the World Bank as a lower middle-income country with GDP of USD346.34 billion in 2021 and per capita GDP of USD1,538. The informal economy's contribution to Pakistan's GDP has been estimated in different ways, including the labor market approach, the currency demand approach, and the electricity consumption approach. These estimates range from 20% to 60% of GDP [1].

Since 1995, the Pakistan Labour Force Participation Survey (LFPS) has been measuring the informal sector in terms of informal employment. The LFPS categorizes enterprises with less than 10 employees as a "household enterprise" and this can include own-account workers, unpaid family workers, and paid employees [2]. Thus informal employment comprises both self-employment in informal enterprises and wage employment in informal jobs, which spells out as jobs without secure contracts, worker benefits, and other social protections. In Pakistan, informal employment has been growing while formal employment remains stagnant with approximately 73% of the nonagricultural labor force is currently engaged in informal work.

The formal economy, at least in theory, constitutes an organized system of employment where employees are hired as per formal contractual agreements with clearly defined roles, responsibilities,

fixed working hours, controlled working conditions, and social security protection. Informality within the labor market, on the other hand, refers to economic activity or enterprises that are neither taxed nor regulated by the government. Employment practices within the informal sector are characterized by decent work deficits that include low wages, poor access to social protection, and hazardous working conditions. The informal economy is also marked by gender-based stratifications and a high incidence of working poverty.

LITERATURE REVIEW

In Pakistan, the informal sector contributes significantly to the economy through employment as well as with its linkages to the formal sector. Both will be discussed in-depth.

Informal Employment

Informal employment in Pakistan provides work to migrants, unskilled, and low-skilled labor. The Pakistan LFPS conducted in 2020–21 highlights that 72.5% of the working population is employed in the informal sector, accounting for 76.2% of nonagricultural employment in rural areas and 68.5% in urban areas. Table 6.1 illustrates the distribution of employment by industrial sector.

TABLE 6.1

INFORMAL EMPLOYMENT BY SECTOR

Sector	Percentage of Total Workers Employed (%)
Wholesale and retail	30.6
Manufacturing	20.2
Construction	19.6
Transport	11.7
Community, social, and personal services	17.5

Source: Pakistan LFPS 2020–21.

FIGURE 6.1

EMPLOYMENT STATUS OF EMPLOYED POPULATION



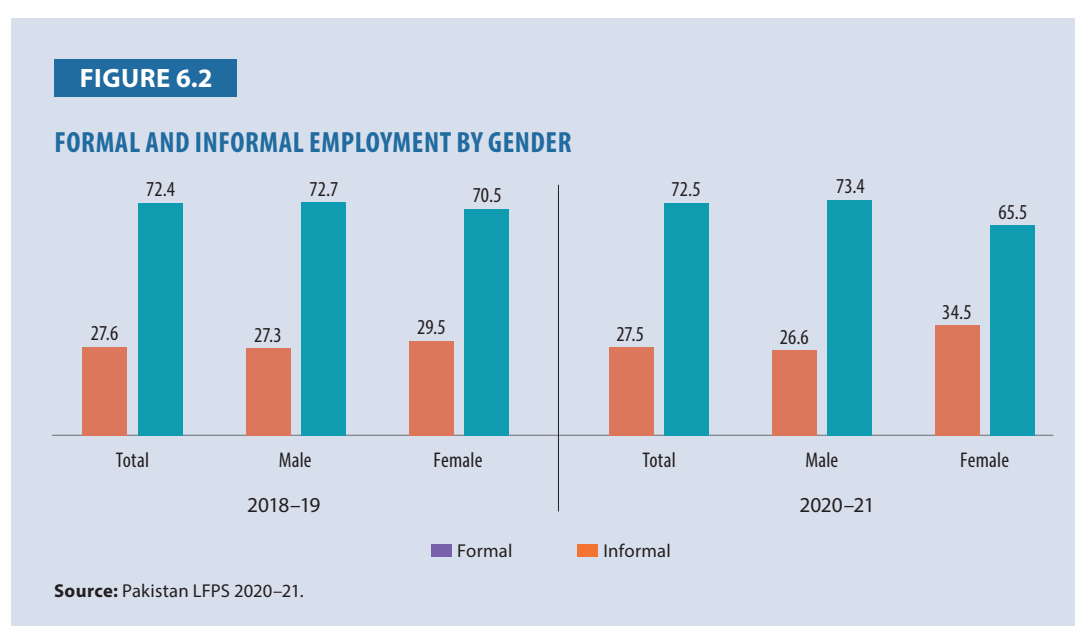
Source: Pakistan LFPS 2020–21.

Mobility within the informal sector is high as workers move from one enterprise to another and even across industries. Informal economy workers also include home-based workers, street vendors, scrap collectors, waste pickers, casual or daily laborers, and domestic workers. Among home-based workers, there is a distinct category known as homeworkers, who carry out paid work within their homes. ILO Convention No.177 defines homeworkers as subcontracted workers that produce goods for wholesale, often through intermediaries [3]. They are considered “dependent workers” as the ILO Convention assumes that a specific employment relationship exists between the de-facto employers that hire them. Figure 6.1 shows how the Labour Force Survey (LFS) classifies the employed population along the formal-informal spectrum. According to this classification, contributing family workers and own-account workers are clearly categorized as informally employed workers but it is unclear what percentage of the employed population falls into the informal category within the employers and employees classifications.

Overall, informal workers are rising in number and proportion as formal job opportunities are becoming increasingly scarce. A recent study finds that the number of home-based workers in the country has risen from 3.59 million to 4.37 million between 2013–14 and 2017–18, respectively. During this period, women’s participation in nonagricultural home-based work doubled from 680,000 to 2,000,000, making home-based work a primary source of employment for women in Pakistan, accounting for 28% of their total employment [4].

The majority of agricultural and nonagricultural home-based workers are in rural areas, comprising 95% and 59%, respectively. In rural areas, 80% of the women are employed as agricultural home-based workers and 48% work in nonagricultural home-based work. Over time, the prevalence of home-based work for women has been increasing in both rural and urban areas. On the other hand, men’s share of home-based work has declined in both rural and urban areas, reaching 11% and 8%, respectively, between 2013–14 and 2017–18 [4].

Among own-account workers who operate their own informal enterprises, men make up a larger percentage at 62% in urban areas as opposed to 46% women. In urban settings, 27% of women work as homeworkers that earn piece-rates while 18% contribute to their family enterprises. Additionally, there is also an unaccounted number that are classified as unpaid contributors to piece-rate or own-account work [4].



Apart from agriculture, informal employment is concentrated in manufacturing and services. In 2013–14 and 2017–18, women’s informal employment tripled in manufacturing, mainly in textiles and apparel home-based production. Men’s informal employment in manufacturing also rose from 7% to 14% during this period in the same subsectors. Piece-rate homeworkers make up 85% of the home-based textile manufacturing industry and another 5% work in the leather industry [4]. Overall, the gender divisions in employment for both formal and informal sectors are shown in Figure 6.2.

Linkages with the Formal Sector

The informal sector’s significance in providing a seedbed or being a catalyst for enterprises and its role in job creation cannot be denied. It accounts for between 20% to 60% of Pakistan’s GDP [1, 5]. In terms of productivity, it has been argued that the informal sector may have a short-run negative impact, but in the long run, the impact on GDP is positive [6]. The informal economy proves to be more dynamic and able to bounce back from shocks relatively quickly as compared to the formal economy, as evidenced by the COVID-19 pandemic. It is also more dynamic because it avoids bureaucratic and regulatory hurdles. Moreover, informal economy supports the formal sector through the latter’s subcontracting to informal enterprises and by providing a consumer base for the formal sector’s products.

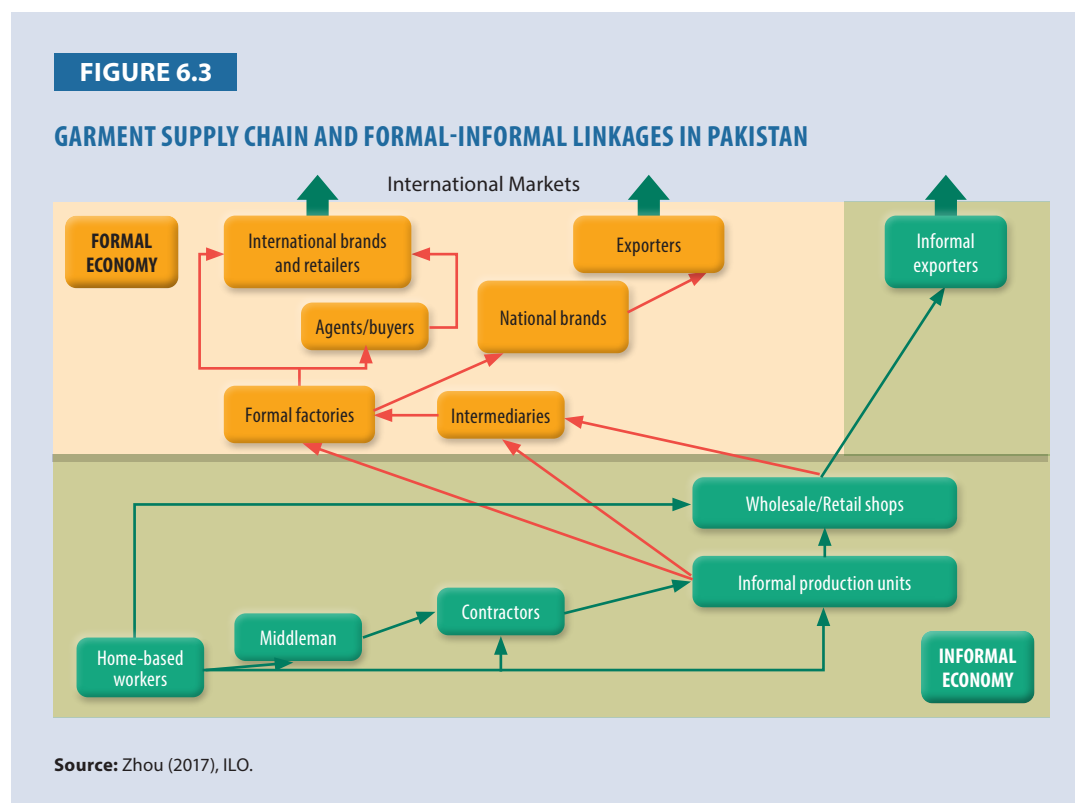
The potential negative effects of the informal sector, specifically relates to tax evasion, which burdens firms in the formal sector with a higher incidence of taxes and results in lower expenditure on public goods due to lost tax revenue. Nevertheless, in Pakistan’s weak social security system, the informal sector fills the void for the vast majority of people by providing income opportunities as well as social services. The negative effects on productivity are arguably short term while the impact in the long term is positive on growth due to the employment and entrepreneurial opportunities provided by the informal sector [7]. Mughal and Schneider’s study shows that a 1% increase in the informal sector leads to a 0.573 percentage point increase in the country’s GDP, demonstrating the positive linkages between the formal and the informal sectors of the economy.

From a structuralist perspective, there are clear linkages between the formal and informal sectors, especially in the context of Pakistan’s liberalized trade regime. Tahir and Tahir’s study looked into the empirical relationship between employment in the two sectors through the labor force surveys. They found strong complementarities between the two. For instance, with minimum wage stipulations, there is also a corresponding increase in wages in the informal sector. Historically, Pakistan’s experience shows that a growth as a result of trade liberalization in the formal sector corresponds with an increase in the informal sector employment.

The complementarity in the context of trade liberalization can be explained by formal enterprises outsourcing labor-intensive aspects of the production to informal enterprises in order to reduce their cost of production and production burden. Pakistan’s cottage industry is very labor intensive and cannot compete with large export-oriented firms. Instead, it relies on outsourced contracts. Thus labor productivity in the informal sector has a multiplier effect in the formal sector and in the global supply chain [7].

The garment industry in Pakistan serves various markets - domestic, Asia, the Gulf region, the USA, and Europe. The informal economy in this sector is diverse, multilevel, and multifunctional. An ILO study [8] details how production between the formal and informal is fragmented and informality increases as one goes down the value chain. Informal enterprises are involved in production and distribution, including factory work. Informal employment also exists within the formal garment sector with home-based workers often engaged at the bottom of the supply chain and do the lowest paid work.

The degree of informality in the garment supply chains varies based on the end consumer's location. The domestic, Asian, and Gulf markets have a much higher degree of informality compared to the supply chains for the USA and European markets. Most informal enterprises in the garment supply chain operate in two streams: through outsourced contracts from formal enterprises and by selling their own unbranded garments in the domestic market [8]. Figure 6.3 provides a visual representation of the linkages and complementarities between the formal and the informal garment sectors in Pakistan.



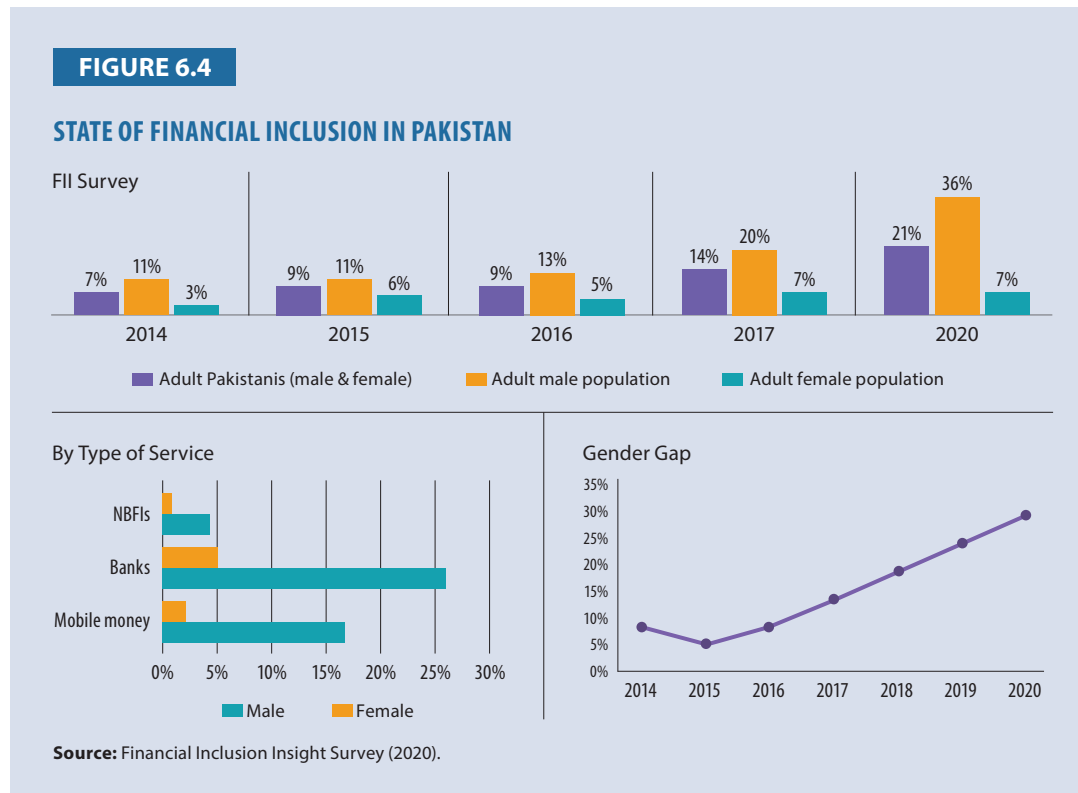
Another case that demonstrates clear formal-informal linkages is solid waste management. In Pakistan's urban centers, informal waste pickers rely on urban solid waste as a principal source of income while providing an important recycling function for society. By doing so, they reduce the burden on municipalities, which are unable to adequately service all residential and commercial areas. However, the lack of purposeful integration of informal waste pickers into the formal waste management system leads to serious problems of mismanagement. Undertaking a systematic integration will not be a one-dimensional or single-step process for it will require an analysis of all possible points of intersection between the formal and the informal sectors [9].

Issues and Challenges of the Informal Sector

Challenges in the informal sector can be categorized into two domains: issues concerning the enterprises themselves and challenges faced by workers in the informal economy. It is important to note the informal employment is not synonymous with the informal economy as the incidence of informal employment within formal enterprises and global value chains is increasing over time, especially with subcontracting and outsourcing becoming more common [10]. However, these two issues are interconnected as one of the primary reasons the informal sector continues to thrive is the lack of employment opportunities in the formal sector. Many entrepreneurs in the informal economy are aspiring to find formal jobs but have been unable to secure them or are still hoping to find their ideal job. This is the stark reality in a country where 72.5% of nonagricultural workers are engaged in the informal sector [11].

Informal Economy Enterprises

A fundamental issue faced by most informal enterprises is low access to and take up of formal financial channels and products. Figure 6.4 highlights that only 21% of the Pakistani population can be considered financially included, with very skewed gender disparity. Specifically, men are at 36% while women at only 7%. The gender gap has been rapidly widening over time, increasing from 7% in 2014 to nearly 30% by 2020.



The chronic lack of capital and adequate financing options leads to problems of scaling up. Loans are often only available through networks of friends and family. More recently, the growth of the microfinance industry, particularly microfinance banks, has provided more options to informal businesses. The loan size ceiling continues to increase. As per the latest prudential regulations by the State Bank of Pakistan (SBP), the country's central bank, the current ceiling on a microloan is PKR3 million (USD13,131). However, commercial banks do not lend to the informal sector, which means that there is a limit to the scaling up in the informal economy.

Access to finance is also gender differentiated and is a critical determinant of the success of women's ventures [12–13]. According to the Global Entrepreneurship Monitor (GEM), while government policies for the entrepreneurial framework have improved in Pakistan from 2012 to 2019, entrepreneurial finance has shrunk over the same period, which has disproportionately affected women. SBP data shows that only 23% of microfinance bank borrowers are women. Access to digital finance is also skewed. Lack of access to mobile phones and mobility restrictions affect rural and poor women the most [14].

Formal enterprises receive tax incentives and preferential treatment, such as through the setting up of special economic zones, which is one of Pakistan's priority areas for improving its investment climate. Informal economy enterprises do not receive any budgetary allocations. In fact, they have to pay the state and local officials to remain in business. For example, an informal economy budget analysis of Ravi

Town, a subdivision of Lahore and one of Pakistan's largest cities, found the area's informal workers are mainly home-based workers, waste pickers, and vendors. They face various local taxes such as animal fee, tax on handcarts, tax on tonga carts, vehicle fee, and fines on stray cattle. To date, there are no budgetary allocations for informal economy workers at the federal, provincial, or district levels [15].

Informal enterprises also have limited opportunities when it comes to exports, especially to North America and European markets. Most have to rely on formal enterprises to outsource their products, where margins are barely profitable. A 2017 ILO study [8] found that more than half of subcontracts for the garment sector were procured at a loss in order to secure future contracts.

Informal Economy Workers

For workers in the informal economy, the main challenge is exploitation through precarious informal contracts, low wages, absence of benefits (such as health insurance and pensions), unregulated and abject working conditions, and very long working hours.

The majority of the research on informal economy workers has focused on home-based workers in Pakistan. They are often controlled by subcontract agreements, subjected to exploitative conditions, and are the least economically independent. The home-based workers often face fluctuating demand for their work, receive very low and delayed remuneration, and occupy the lowest rung of global and local value chains [16]. Despite policy advancements in recent years in many countries, including Pakistan, they are not recognized as workers under the law and they lack social protections.

According to a 2017 survey [8], home-based workers in the garment sector, where much of this type of work is concentrated in Pakistan, work an average of 12.3 hours per day, six days a week, to make a meager monthly income of PKR4,342 (USD42.5). This income is even inflated as it subsumes the unpaid labor of other family members assisting the primary home-based worker [4, 8]. This should be contextualized against the fact that most home-based workers live in impoverished communities and engage in this work due to limited economic opportunities, given their illiteracy, lack of labor market opportunities, and mobility constraints.

Own-account workers are self-employed individuals who undertake production and processing themselves and sell their products to formal and informal enterprises or to the market. However, these workers lack complete access to information of the market and its changing conditions. They often do not have complete control over how production will be undertaken and are greatly affected by inflation, fluctuating demands, and damaging competition. Like homeworkers, own-account workers also face numerous occupational health and safety hazards, low remuneration, and lack of negotiating power to improve living and working conditions. Both types of workers use their own tools and equipment and cover most of the operational costs, like rent of premises, electricity, water, and other incidentals [4].

Gender plays a role in this dynamic. In Pakistan, 94% of piece-rate homeworkers are women and only 6% are men. Not only are they informally employed as they operate out of their homes, they are isolated and face extreme information asymmetries. Patriarchal norms restrict their mobility, which makes it difficult for them to gather market information, bargain with firms or contractors, or even be aware of the earning of others in the same trade [17].

The COVID-19 pandemic exposed and amplified existing vulnerabilities of the informally employed in global and local value chains. Supply disruptions, reduced demand, threats to worker safety, combined with a global recession had a severe impact on home-based workers [16, 18]. With little to no access to essential resources, like food, income, supplies, healthcare, water, and sanitation, and lacking financial safety nets, home-based workers in Pakistan were hit hard by the pandemic-related lockdowns [19]. When the lockdowns began, home-based workers across Pakistan reported severe supply and demand

disruptions and an immediate halt to their incomes. Even after the lockdowns eased, home-based work faced long periods of erratic work orders and nonpayments due to global supply chain disruptions [16].

Apart from research on home-based workers, there is also data on the forced demolitions on informal workplaces and the bribes or coercive taxes that street vendors and informal traders have to pay local officials and mafias [20]. This is a significant cost of staying in business. During the pandemic-related lockdowns in Pakistan, street vendors and informal traders had to pay fines to local police every time they were forced by their families' food insecurity to attempt to go out and earn a living [16].

Thus apart from their precarious livelihoods, informal workers face serious threats to their well-being and dignity.

Regulatory Environment and Policy Gaps

Informal Economy Enterprises

In Pakistan, those who want to establish their businesses in the formal sector must deal with red tape, bureaucratic malaise, and corruption. The government of Pakistan acknowledges the challenges faced by business firms, stating, "complying with complex multi-tiered, costly, paper-based, inefficient and uncoordinated regulatory regime with over 40 regulatory agencies" [21]. This involves visiting multiple agencies for registering a business with the federal, provincial, and district levels; lengthy and difficult compliance procedures; limited use of electronic technology; weak coordination between agencies, and so on. These obstacles are major reasons why SMEs and other nonexport-oriented businesses continue to operate in the informal sector.

Corruption is another major problem for businesses while dealing with the government. According to the World Bank Enterprise Surveys, 88.2% of formal firms surveyed in Pakistan state that they were expected to give gifts to officials to secure a government contract, as opposed to a South Asian average of 48.1%¹. Similarly, 31% of firms had to bribe officials to get an operating license, 28.7% had to bribe in order to get a construction permit, and 28.8% had to bribe tax officials. Consequently, 68.3% of firms identified corruption as a major business constraint.

To overcome these regulatory hurdles, in 2019, the government of Pakistan established the Pakistan Regulatory Modernisation Initiative (PRMI), which is a sweeping regulatory reform strategy aimed at improving the country's investment climate in order to make it easier to establish and operate a business. It builds on the previous Ease of Doing Business (EODB) program. Under the EODB, Pakistan improved its ranking in the World Bank's Ease of Doing Business Index from 136 to 108 for having introduced nearly 300 reforms to improve the investment climate in the country. These include shortening the period required to register a business, securing construction permits, getting commercial electricity connections, tax automation, and the easing of export regulations [22].

The PRMI aims to build on the EODB by taking a structured approach to further modernize and simplify business regulations through a phased process. The PRMI's emphasis is on reducing and simplifying procedural hurdles, increasing transparency, and reducing corruption, including creating an enabling business environment through the efficiency and effectiveness of business regulations, such as the Pakistan Single Window (PSW) initiative.

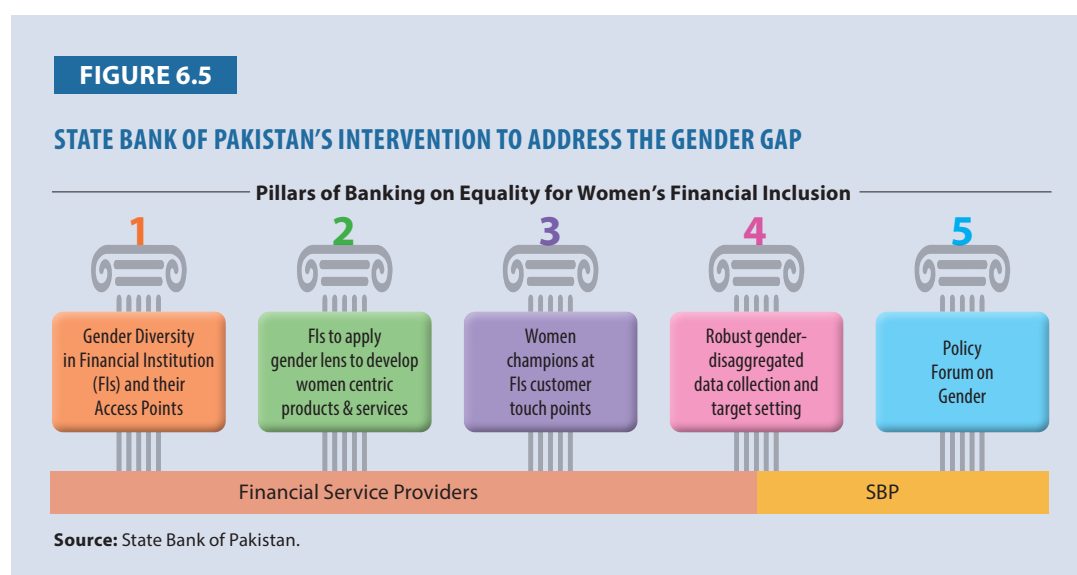
¹ The World Bank Enterprise Surveys were conducted in 2013 and in Pakistan, the sample includes 1,247 manufacturing firms.

The PRMI strategy is a four-stage process. The first is data collection and mapping, the second is a review of existing regulations, the third is the 'regulatory guillotine' through which unnecessary regulations are removed while the final stage is automation [21].

The Board of Investment is the custodian of the PRMI, which emphasizes public-private dialogues, engagement with business expert groups, capacity building, and dissemination. This offers several entry points for enhancing the formalization of the economy. The country's political economy, however, makes it difficult to sustain the reform process. Since the PRMI was the initiative of the previous government, the new government which assumed power in 2022 appears to have shelved the PRMI for the time being.

An oft cited reason why businesses do not formalize is tax avoidance, though researchers are increasingly questioning this assumption and contend that informality has more to do with poverty and the structure of the new global economy [23]. Nonetheless, according to the World Bank Enterprise Surveys, 54.1% of the formal firms surveyed in Pakistan identified tax rates as a major hurdle to their businesses, as opposed to a South Asian average of 26.4%. Similarly, 34.1% identified tax administration as a significant constraint to their operations, as opposed to a South Asian average of 18.7%.

Valodia and Francis [23] provide important insights from South Africa that can easily be applied to Pakistan and other Asian countries. They contend that high entry costs of establishing a business and high industrial concentration make it hardly a matter of choice for businesses choosing between formality and informality, with the majority of entrepreneurs choosing the latter. In such cases, applying punitive tax policy, such as through the value-added tax (VAT), as a way of driving workers and businesses to the formal sector, has disastrous impacts on the poor. The same is true for presumptive taxes and user fees imposed by local or city governments on informal markets and traders, which are based on crude estimations of informal revenues. What Valodia and Francis [23] are getting at is that it is erroneous to assume that informal enterprises and informal workers do not pay taxes; in reality, taxes can significantly reduce their profits to the point where they are driven out of business and intensifying their poverty.



Another critical problem faced by the informal enterprises is the chronic lack of finance for informal enterprises. To improve access to finance, the government of Pakistan collaborated with the World Bank to develop the National Financial Inclusion Strategy (NFIS) 2020. The NFIS aims to increase the banked population in the country, enhance basic financial literacy, improve access to credit, overcome data gaps in financial services, and address gender disparities in financial services. The microfinance

sector and digital finance were considered as engines of growth, especially with respect to the informal economy. Branchless banking (regular banking services without going to an actual branch) has been increasing at a rate of 22% per annum and had grown to 85 million accounts by March 2022 in a country of 220 million people. This expansion in branchless banking may be the mechanism through which the informal economy is banked as the number of commercial bank accounts currently stands at only 66 million in the country [24]. Further, initiatives to increase access to finance for female entrepreneurs have also been recently launched as part of the State Bank of Pakistan's Banking on Equality, as shown in Figure 6.5.

The microfinance industry plays a crucial role in providing finance for the informal sector. The current microfinance penetration rate in the country is 41.3%, with nearly 8.5 million active borrowers and 8.5 million insurance policy holders. Over 4,000 branches of microfinance institutions and microfinance banks cover 139 of the 160 districts of Pakistan, although there is a high degree of concentration with most of the branch network in Punjab province [25]. The microfinance industry is a major focus of the NFIS, and the State Bank has worked to enhance the industry's footprint by creating an enabling regulatory framework for which it has received globally recognition. Yet, the country's political and economic turmoil has disrupted the expansion of microfinance several times in the industry's 40-year history.

Informal Economy Workers

Most policy advocacy for informal workers have been focused on home-based workers. The collective action by home-based workers has by no means been an easy task. Not only does it require them to rise up against their spatial confinement but it is also at the risk of abuse, financial exploitation, and harassment from the middlemen and contractors on whom they rely to provide them with work. Nevertheless, home-based workers in Pakistan have been mobilizing and organizing to demand their labor rights for the past 20 years now.

In Punjab, Pakistan's largest province, the Homebased Workers Act was approved by the cabinet in 2013 but has yet to be enacted. In Sindh, the second largest province, the Homebased Worker Act was passed in 2018. In 2021, the Khyber Pakhtunkhwa Home Based Workers Welfare and Protection Bill was passed, covering Pakistan's third largest province. Balochistan, Pakistan's fourth province, passed the Home Based Workers Act in April 2022. Thus all four provinces have now passed legislation to ensure the labor rights of home-based workers, but so far, none of them have been implemented.

The rules under the Sindh Act were developed and approved in June 2020. An MOU was signed in December 2020, and the registration process of home-based workers under the approved rules began in June 2021. However, procedural hurdles continue to impede implementation. Nevertheless, home-based workers have achieved widespread legitimacy in Sindh as members of the Homebased Women Worker's Federation (HBWWF) actively participate in various labor committees, including the Sindh Tripartite Labour Standing Committee, Zonal Committees, the Sindh Minimum Wage Board, the Occupational Safety and Health (OSH) Council, and several tripartite zonal committees. The Sindh Tripartite Labour Standing Committee was instituted in early 2018 to monitor labor policy implementation.

In addition to this, the Punjab Domestic Worker Act 2019 and the Islamabad Capital Territory Domestic Workers Bill 2021 have also been recently enacted, specifically to enhance the labor rights of domestic workers. This is another important achievement to protect the rights and welfare of informal workers in the country.

EMPIRICAL ANALYSIS

Sector-wise Labor Productivity

Labor productivity varies widely across sectors in Pakistan. Table 6.2 shows average productivity calculated using the sectoral value as a percentage of GDP [28] and the percentage employed in each sector [11].

TABLE 6.2

AVERAGE PRODUCTIVITY BY SECTOR IN 2020–21

2020–2021	GDP (%)	Total GDP (current USD)	Employment (%)	Total Employment	Average Productivity	Formal-Informal Earnings Gap (current USD)
Agriculture, forestry, hunting, and fishing	19.19	59,149,337,000	37.4	25,151,500	2,351.72	-
Manufacturing	12.79	39,422,617,000	14.9	10,020,250	3,934.29	98 to 189,778
Construction	2.61	8,044,803,000	9.5	6,388,750	1,259.21	74
Wholesale & retail trade	18.82	58,008,886,000	14.4	9,684,000	5,990.18	21.75
Transport, storage, & communication	12.18	37,542,414,000	6.2	4,169,500	9,004.06	176
Others	34.41	106,061,943,000	17.5	11,768,750	9,012.17	
TOTAL	100	308,230,000,000	100	67,182,750		

To calculate the formal-informal earnings gap, case studies that appear in the following paragraphs are used. For the manufacturing sector, Case A of the clothing retailer and Case D of thread clipping in the textile sector are referred to; for construction, Case C of a house painter; for wholesale and retail trade, Case E for a jewelry maker and retailer; and finally, for transport, storage, and communication, Case D of a newspaper vendor. The two manufacturing cases show a wide disparity between the formal-informal earnings gap of informal enterprises, which show that there is a broad range of informal enterprises in the sector.

Informal Enterprise Case Studies

The informal economy of Pakistan is heterogenous, which means that the dynamics of growth for each informal enterprise is different. To analyze informal enterprise labor productivity and the productivity gap between the formal and informal sectors, a survey of five informal enterprises across sectors were undertaken, including textile manufacturing, newspaper vending, house painting, thread clipping, and jewelry making.

Case Study A: Textile Manufacturing Firm

Textile manufacturing is a major sector in Pakistan's informal economy. The textile manufacturing firm surveyed is an e-commerce retail shop that sells western clothing, such as T-shirts, trousers, sweaters, and jackets across the country. The products are priced between USD4.41 to USD30.85 (PKR1,000 to PKR7,000) and they serve the middle-income segment of the market. The firm undertakes product design, manufacturing, quality control, marketing, and retailing. It uses textiles procured through wholesalers, also working informally, who sell left-over fabric produced by large textile manufacturers in Faisalabad city, Punjab province. The enterprise is run by three college graduates that can be classified as own-account workers.

Apart from the owners, the enterprise has one full-time employee as well as subcontracted workers that are hired seasonally on a piece-rate basis and they can be as many as six at a time. On average, each subcontracted worker earns USD132.21 (PKR30,000) per month. Working conditions for labor can be hazardous due to the use of fabric dyes and resins. The enterprise has a recurring informal trade credit, between 45 to 60 days, from their fabric and stitching vendors that ranges between USD2,203.54 to USD2,644.25 (PKR500,000 to PKR600,000). The enterprise has not taken commercial bank credit due to the owners' lack of collateral and the documentation required to meet formal loan requirements.

Unlike smaller informal enterprises that will be discussed later, the owners of this enterprise have greater market access as well as access to high-quality raw materials, attributed to their education and relatively high socioeconomic status. This is a major reason for their rapid business expansion and higher value addition, as compared to the smaller informal enterprises. However, when compared to a formal sector textile manufacturing firm, like Image Pakistan that is engaged in the same line of business, the bigger enterprises earn much higher revenues, has much greater value addition, and labor productivity. The cofounders expressed their interest in formalizing their enterprise and even sought legal advice to do so in 2021, but were discouraged after learning about the taxes they would have to pay, the documentation involved in registering their business, and the cost of regulatory compliance. They decided that given their relatively small-scale operation and income, the costs outweighed the benefits of formalization. In the textile supply chain in Pakistan, as previously shown in Figure 6.3, the informal economy is tightly woven with the formal, and formal enterprises work with informal enterprises so that there is often little incentive for informal businesses to formalize.

Number of fulltime employees	4
Monthly Value-Added	
	USD (PKR) ²
Labor + materials	2,314 (525,000)
Marketing	1,983 (450,000)
Overheads	639 (145,000)
Monthly gross expenditure	4,936 (1,120,000)
Monthly gross revenue	6,126 (1,390,000)
Value added (Gross revenue - Gross expenditure)	1,190 (270,000)
Labor productivity (Value added/number of employees)	297 (67,500)

Formal sector comparable textile firm - Image Pakistan

Number of employees	1,048
	USD (PKR)
Total gross expenditure	107,023,6.65 (242,844,937)
Total gross revenue	194,792,8.61 (442,000,000)
Total value added	877,008.58 (199,000,000)
Labor productivity	190,075 (43,129,918)
Formal-informal value-added gap	189,778 (43,062,526)

² Exchange rate used: USD1 = PKR226.91

Case Study B: Newspaper Vendor

Umar Deen joined his father's business of selling newspapers in Lahore after completing his matriculation in 1989. He now runs his business alone but explains that while the business used to fetch twice as more as a clerk's salary when he first started, now the opposite is true. This is because newspaper readership has gone down as people rely on the internet and social media for their news. In addition, during the first year of the COVID-19 pandemic many people stopped buying newspapers out of fear of contracting the virus. He contends that newspaper readership went down by 50% and never recovered. People simply got used to the absence of newspapers.

Umar Deen sells newspapers at his stall in a commercial area of Lahore but also delivers newspapers directly to homes and offices. The work is difficult because it has to be done seven days a week and becomes especially difficult during the monsoon season as well as the extreme heat and cold weather of Lahore. He states that one of his challenges is that when policemen on duty pass by his stall, they pick up any newspaper or magazine they like without paying for them. Another challenge is that despite double-digit inflation and a significant hike in fuel prices, newspaper prices have not increased in the last few years which makes the business largely unprofitable and value addition remains low, as shown below.

This informal enterprise hires five to six part-time workers to deliver newspapers to homes and offices in the mornings and two more part-time workers for bill collection. The calculations below show that Umer Deen's labor productivity is lower than it would be if his enterprise was in the formal sector.

Number of fulltime employees	1
Monthly Value-Added	
	USD (PKR)
Labor cost	269 (61,000)
Newspaper cost	749 (170,000)
Fuel cost	46 (10,500)
Monthly gross expenditure	1,064 (241,500)
Monthly gross revenue	1,241 (281,500)
Value added	176 (40,000)
Labor productivity	176 (40,000)
Office clerk salary	352 (80,000)
Formal-informal value-added gap	176 (40,000)

The comparable formal sector labor productivity or value added would be USD352 (PKR80,000), which is the average salary for a clerk working in the formal sector with Umer Deen's 33 years of experience. This comparison was drawn by Umar Deen when he explained that he was persuaded to enter this business in 1989 because he could earn more than a clerk at the time.

Case Study C: Housepainter

Muhammad Mohsin completed his primary education and then dropped out of school. In 1999 he became a house painter in Lahore. He says he used to earn very little in the beginning, but now after several years of experience, he is able to secure bigger projects, such as painting newly constructed or

older homes and offices. This includes both painting the inner and outer walls of the buildings and polishing the doors, windows, and other woodwork. He explains that the work requires technical skills, such as preparing the walls and woodwork for paint and polish as well as mixing several different types of paint and polish. Mohsin explains that a new construction takes two to three months to paint and polish but this includes several days of sitting idle while other workers are working at the same site. For instance, when preparing the walls of the bathroom, Mohsin has to wait for someone else to put in the tiles before painting the non-tiled part of the bathroom. There is no work during the monsoon season and rainy days in the rest of the year because the walls do not hold paint well when the weather is wet or very humid.

Mohsin negotiates with the client a fixed price and then acquires the labor and materials to complete the job. Materials include sandpaper, paints, brushes, polish, etc. For the average middle-class home, it takes five to six men to complete the job who are given a daily wage along with lunch.

Number of fulltime employees	1
Monthly Value-Added	
	USD (PKR)
Labor cost	176 (40,000)
Materials cost	229 (51,933)
Monthly gross expenditure	405 (91,933)
Monthly gross revenue	441 (100,000)
Value added	36 (8,067)
Labor productivity	36 (8,067)
Minimum wage in Punjab	110 (25,000)
Formal-informal value-added gap	74 (16,791)

To compare the labor productivity of a housepainter as an informal enterprise, the minimum wage in Punjab province (Lahore is the capital) is used, which is USD110 (PKR25,000). This is the amount that a formal sector employee with a primary education would earn.

Case Study D: Thread Clipping Homeworkers

In the Pakistani textile industry, clipping off extra threads in fabric and ready-to-wear clothing is a task relegated to the informal sector and is subcontracted to homeworkers. The work needs to be completed quickly and is contingent on when the fabric is ready. For this case study, four homeworkers in Lahore were surveyed. The homeworkers come from a family of 10 homeworkers, all engaged in the same work, consisting of eight women and two children aged eight and ten years old. The women homeworkers are the sole breadwinners of the family, except for a 12-year-old boy who works as a packer in a clothing-iron making factory.

They have been doing this work for over 10 years. They receive the material from a textile manufacturer which is supplied to them through a factory employee. Each homemaker places fabric against a wall and clips threads off manually using clippers which they purchase from the market. The family's workday begins at 8 a.m. every day with the factory employee arriving at their doorstep with a fresh batch of fabric. Thread clipping is of two kinds. The first involves very fine threads that need to be clipped very

carefully and is compensated at USD0.022 (PKR5) per yard while the second involves longer rough threads that can be clipped quickly, and this fetches them USD0.0088 (PKR2) per yard.

For the first task, the family completes approximately 10 bolts of 33-yard fabric a day whereas for the second task, they can complete up to 60 bolts in one day. This family of homeworkers has been in the business for several years and feel confident that this is the prevailing rate for doing this work in the area. Sometimes the work must be completed on very short deadlines of as little as 30 to 60 minutes. This is also when the household's children are asked to get involved in the work. The women workers explain that the work is dangerous since it involves using sharp clippers and knives without any safety gear, and the women and children often get injured while clipping off fine threads, especially under time pressure of strict deadlines. It took the workers a little over two years to master the skill of thread clipping.

While working from home has given the workers flexibility to simultaneously complete their domestic chores, including care work, their workdays are much longer than they would be if they had waged employment outside their home. Their business expenses include the cost of tools, such as thread clippers and electricity, but the utility bill has been so high that they have been unable to pay it. The workers do not have any natural gas facility in their home and use firewood for heating and cooking. The extremely low income from this enterprise means that labor productivity and value added is also very low, especially in comparison to the minimum wage in Punjab, as shown below.

Number of fulltime employees	10
Monthly Value-Added	
	USD (PKR)
Gross expenditure	
Utilities + tools	90 (20,400)
Gross revenue	209.78 (47,600)
Value added	120 (27,200)
Labor productivity	12 (2,720)
Minimum wage in Punjab	110 (25,000)
Formal-informal value-added gap	98 (22,237)

Case Study E: Home-based Jewelry Making

Maha learned jewelry making at a local NGO and now operates her own informal enterprise out of her home, which runs her small household that includes her paralyzed father and herself. Her jewelry-making business pays for her household expenses as well as the healthcare costs for her father's treatment. Jewelry making uses beads and *gota*, an indigenous material produced in South Asia. The jewelry is sold to local vendors in the markets in Lahore. Maha purchases this material along with four other women who do the same work in her neighborhood. They produce an average of four jewelry sets a day, but when there is demand they can produce seven to eight sets a day. Each set contains a ring, necklace, bracelet, earrings, and a headpiece known as *matha patti*. The women have developed their own design catalogue and can customize the jewelry as per client preference. The NGO that trained them also provided them access to new clients and markets and they can charge twice as high to their individual clients as to the local vendors that they sell to. They also offer home delivery to their individual clients. With these customers, the women are also able to demand full advance payment at the time of order placement. The women would like to continue exploring new markets, but they face restricted

mobility because of which market access remains limited. Nevertheless, their labor productivity and value added is much higher than the other home-based enterprise that were surveyed, though it is still less than the value added of the minimum wage-earning formal sector worker, as shown below.

Number of fulltime employees	1
Monthly Value-Added	USD (PKR)
Gross expenditure	
Utilities + materials + transport	66 (15,000)
Gross revenue	154.25 (35,000)
Value added	88.25 (20,000)
Labor productivity	88.25 (20,000)
Minimum wage in Punjab	110 (25,000)
Formal-informal value-added gap	21.75 (4,935)

These five case studies of informal enterprises across sectors in Lahore, Pakistan show wide formal-informal sector value added and labor productivity gaps. Nevertheless, the own-account workers included in the surveys do not see employment opportunities in the formal sector for themselves nor do they believe they can realistically formalize their informal enterprises for reasons that match those mentioned in the literature review.

CONCLUSIONS AND POLICY RECOMMENDATIONS

This report evaluates the state of Pakistan's informal economy, its growth over time, linkages with the formal economy, and its persistent productivity challenges from the perspective of its workers and its enterprises. The report also presents an overview of the regulatory climate of the country, and the push and pull factors that keep the majority of the working population trapped in low productivity employment in this sector. The empirical analysis shows that when labor productivity and value-added used were initially high, some individuals preferred to establish their informal enterprises, instead of seeking waged employment in the formal sector. However, labor productivity has gone down significantly over time so that these informal enterprises are no longer viable. On the other hand, there are others, such as the college educated founders of a textile manufacturing firm who preferred to set up an informal enterprise rather than seek corporate jobs because of the entrepreneurial growth potential in the country. Nevertheless, their value-added remains well below that of the formal sector.

Access to finance remains low in the economy, which acts as a significant barrier to scale up for informal economy enterprises. Commercial bank credit is restricted to formal enterprises, which are firms with collateral and reputation as well as proper documentation. Informal credit, such as trade credit, is available to some informal enterprises, such as the textile manufacturing firm that was surveyed, but this is for very short-term periods and can only be used as a working capital line of credit. Capital expenditures cannot be financed through informal finance such as this. Microfinance banks do offer opportunities for informal enterprises but the data shows that their lending is sharply skewed toward male-owned businesses, leading to a gender bias in entrepreneurial finance. Moreover, the ceiling on microcredit by the SBP limits credit-led business expansion. The SBP's Banking on Equality initiative is a step in the right direction for removing gender-related barriers in access to finance but to deepen the

market, there needs to be a more deliberate stakeholder engagement to ensure buy in. This will require learning from not just the different sectors of the financial market but also from a broad spectrum of informal enterprises and own-account workers, such as those surveyed in this report.

Problems of low productivity in the informal sector should in theory drive informal enterprises to enter the formal sector but the regulatory hurdles of formalization continue to be formidable and, as the empirical analysis shows for smaller enterprises, it is not cost effective to register their businesses. The informal sector mainly comprises small businesses which means that from a productivity perspective, the focus of formalization should be on licensing, registration, and enabling the growth of these enterprises rather than on taxation [26]. As Martha Chen, cofounder of Women in Informal Employment: Globalizing and Organizing (WIEGO), notes: “To some observers, formalization means shifting all informal workers to formal jobs. But this is not a realistic goal. To other observers, formalization means regulating and taxing informal enterprises. But regulation should involve benefits, not just costs.” [27]

In this report, the mainstream view is countered that informal enterprises resist formalization in order to avoid taxes through a discussion of the different ways in which informal enterprises are taxed by state and local governments and street level bureaucrats while at the same time, remaining deprived of the subsidies and incentives that are available to formal enterprises. The way forward would be to conduct further research into how taxation systems impact both formal and informal enterprises and how taxation can contribute toward GDP growth while at the same time increase firm-level productivity.

In general, only policy initiatives that are resistant to changes in government through a deliberate process of multistakeholder engagement can stand the test of time. The previous government’s move to reduce unnecessary regulations for businesses and bureaucratic malaise through the PRMI brought hope to informal enterprises waiting for an opportunity to scale up and enhance their productivity through formalization. These developments led to sharp improvements in the country’s Ease of Doing Business ratings by the World Bank. Nevertheless, the PRMI is currently at a standstill since a new government took over in 2022. It is obvious that unless there is a clear agenda to remove regulatory hurdles for formalization that transcends politics, the informal sector will continue to grow in the face of a static or shrinking formal sector. For this, policy entrepreneurs, such as the Asian Productivity Organization (APO) will need to engage researchers and academics, public-sector entities, such as the federal and provincial Board of Investment (BOI), businesses in both the informal and formal sectors, financial entities and regulators, including the SBP and the Securities and Exchange Commission of Pakistan (SECP), to ensure buy in and to develop a broad-based understanding of how the challenges mentioned here can be systematically overcome and change sustained.

When it comes to employment, there is currently lack of legislation to provide informal workers with the same rights enjoyed by formal workers, such as minimum wage, health benefits, social security, etc. In 2019 the Sindh Women Agriculture Workers Bill was enacted, under which women who work in agriculture, livestock, and fisheries are to be awarded written contracts, an eight-hour workday, 120 days of maternity leave, equal wages to men, and other benefits. This Act can serve as a blueprint for enacting legislation that protects the rights of workers in urban informal employment.

As detailed in an earlier section, in May 2018, the Sindh Home-Based Workers Act was passed after years of lobbying. This is the first provincial level legislation enacted for ensuring the rights of one category of informal workers. The Punjab Home-Based Workers Act was approved by the provincial cabinet before the Sindh Act, but has yet to be enacted. Other provinces have also approved home-based worker Acts though they have not yet been legislated. Even though, it has been some years since the Sindh Act was passed, workers have yet to receive any benefits from the legislation. The same is true for the Domestic Worker Acts that have been passed for Punjab and the federal capital. Lack of political will impedes the implementation of labor laws across the country for informal workers. Policy entrepreneurship by global, regional, and national stakeholders, such as APO and the ILO, must get these urgent matters on the government’s policy agenda.

CHAPTER 7

PHILIPPINES

EXECUTIVE SUMMARY

Estimated to be more than 17 million as of March 2022, the number of Filipinos engaged in informal work is growing. This can be a symptom of underlying problems in the Philippines, such as intergenerational poverty, inability to generate stable jobs to a constantly growing population, low education, weak and slow development in agriculture and industry sectors, and rising nonstandard employment. The emergence of gig workers is also a push factor why Filipinos engage in informal work.

Using primary and secondary data, this study looks into the informal sector productivity in the Philippines, their issues and challenges, and the policy interventions in place. Interviews were conducted and official websites as well as existing related literature were utilized.

Data show that the social and economic contributions of the informal sector in a developing country is very significant. For example, almost one-third or 34% of the GDP of the Philippines comes from this sector. Considering its growing labor force, this sector also provides employment opportunities to those who are unable to be formally employed and makes cheap goods and services available. However, the lack of secure employment and social protection, among others, have exposed the vulnerability of the informal workers, particularly during the COVID-19 pandemic.

Through the years, landmark legislations by various administrations of the country were enacted as well as programs and initiatives were undertaken to reduce poverty, provide social assistance, and social development, among others. There have been improvements made but still, more has to be done to alleviate the tough plight of millions of ordinary Filipinos.

Lessons learned through the years must serve as building blocks for better solutions as the struggle is not yet over. The country is still on the road to economic recovery, thus pursuing a solution to the difficulties faced by informal workers will not be an easy task. Increasing their employability, productivity, and opportunity to have a voice and representation in the system, have job security, and social protection may be far from being realized soon. But stakeholders must remain steadfast toward attaining a better quality of life for informal workers.

INTRODUCTION

Engaging in informal work has become a norm through the years and the ultimate remedy for those who are unable to be formally employed in the Philippines. In a country where poverty is widespread and unemployment and underemployment being perennial problems, Filipinos are left with no choice but to earn a living at all cost. This situation was made worse with the COVID-19 pandemic.

Based on the 2018–22 July Labor Force Survey, the employment rate in the country significantly dropped to 90% in 2020, the year when the pandemic started, down from 94.6% in previous year. The

underemployment rate went up to 17.3% in 2020, and in 2021, it increased further to 21%. Similarly, the unemployment rate escalated to 10% in 2020, up from 5.4% in both 2019 and 2018 [1].

Mobility restrictions imposed by the Philippine government to contain the COVID-19 virus adversely affected most businesses and, inevitably, the workers. The Department of Labor and Employment (DOLE) estimated that as of April 2020, more than 2 million workers were affected and most of those who were displaced came from the National Capital Region (NCR) [2]. However, as the threat of the COVID-19 virus became manageable, primarily due to the massive vaccination program of the government, the country started showing some signs of recovery, as reflected in Table 7.1. A partial estimate by the Philippine Statistics Authority (PSA) from the July 2022 Labor Force Survey shows a drop in the rates of unemployment and underemployment at 5.2% or 2.6 million and 13.8% or 6.54 million, respectively. Though still considered high compared with major Asian economies [3], this unemployment rate is reported to be the lowest since 2005. Corollary to this, an increase in the labor force participation rate was noted at 65.2% and the employment rate at 94.8% or 47.39 million [1].

TABLE 7.1

2018–22 JULY LABOR FORCE SURVEY

	2018	2019	2020	2021	2022 ^p
Labor force participation rate (%)	60.1	62.1	61.9	59.4	65.2
Employment rate (%)	94.6	94.6	90.0	92.8	94.8
Underemployment rate (%)	17.2	13.6	17.3	21.0	13.8
Unemployment rate (%)	5.4	5.4	10.0	7.2	5.2

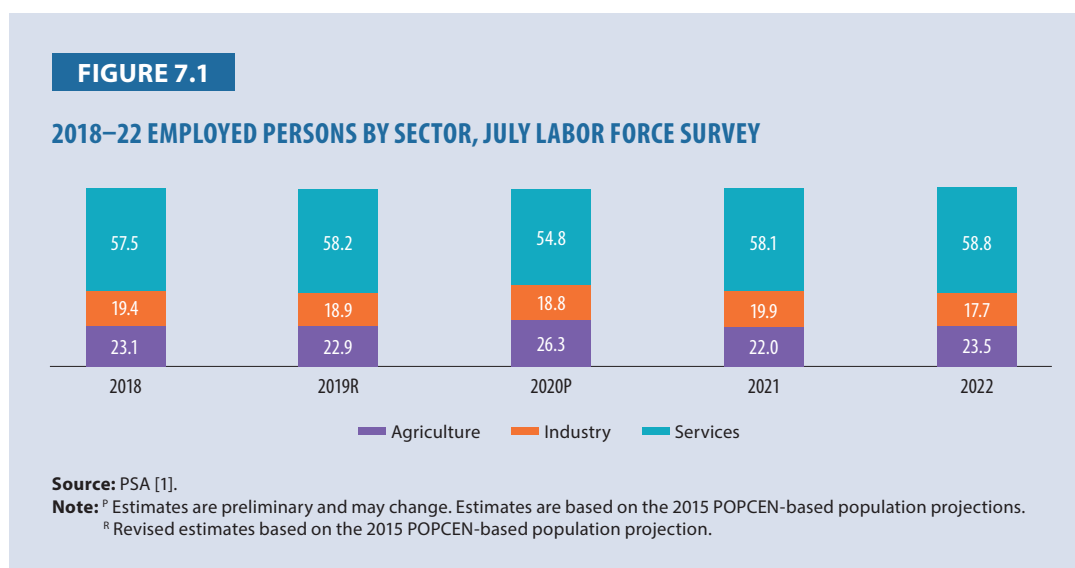
Source: PSA [1].

Note: ^p Estimates are preliminary and may change.

Since 2018, the services sector is consistently the highest employment generator, as shown in Figure 7.1. More than 50% of those employed work in one of the following:

- Wholesale and retail trade; repair of motor vehicles and motorcycles
- Transportation and storage
- Accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific, and technical activities
- Administrative and support service activities
- Public administration and defense; compulsory social security
- Education
- Human health and social work activities

- Arts, entertainment, and recreation
- Other service activities; activities of households as employers, undifferentiated goods and services-producing activities of households for own use
- Activities of extraterritorial organizations and bodies



Though there is improvement in the labor force participation rate, the number of Filipinos employed in informal work is still high. The ILO estimates that nearly two out of five Filipino workers can be classified as engaged in informal work [4]. In the 2008 Informal Sector Survey (ISS), about 10.5 million informal sector operators who are either self-employed without any paid employee or employer in own-family operated farm or business were reported by the PSA. In 2018, using self-employment and unpaid family worker as indicator of informal work, the ISS estimated that there were 15.68 million Filipino informal workers. As of March 2022, the Labor Force Survey revealed that their number increased to 17.016 million or 36.2% of the total number employed [1]. This steady increase in the number of informal workers can partly be attributed to the increasing population of the country. With a current population of more than 113 million, according to Countrymeter, 65.4% belong to the labor force of those who are 15 years old and above. Of this number, more than 68 million are between 15 and 64 years old and 4.8 million are over 64 years old. In terms of gender distribution, there is almost an equal number of male and female in the 15–64 years old category while there are more than 600,000 females in the 65 and above category [5].

This study looks into the informal sector productivity in the Philippines, their issues and challenges, and the policy interventions in place. The paper also provides recommendations for better and stronger economic inclusivity. Primary data were taken from interviews conducted between 14 October–23 December 2022, involving informal workers engaged in various jobs. They are e-hailing drivers, farmers, construction workers, garbage collectors, tricycle drivers, and those who render on-call diverse home services, among others. Secondary data taken from government institutions through its official websites as well as existing related literature were utilized.

DECONSTRUCTING THE INFORMAL SECTOR

This sector has always been associated with informal work where decent work is generally nonexistent. The ILO defines decent work as:

“the aspirations all people have for their working lives; for work that is productive, delivers a fair income with security and social protection, safeguards basic rights, offers equality of opportunity and treatment, prospects for personal development and the chance for recognition and to have your voice heard.” [6]

Informal workers are usually characterized by their nature of employment, occupational group, and location of work among others. With no regular employment, informal workers perform various odd jobs from peddling in the streets or sidewalks, hawking, scavenging, small-time farming, driving public utility vehicles to provide personal services on “on-call” basis, such as domestic work, hair and beauty services, and others. Their work location can also be home-based, like those engaged in embroidery, tailoring, etc., and backyard family-owned small enterprises.

Just as varied as the activities are in the informal sector, its concept has also generated a number of terminologies. For example, it is described as a “secondary sector market” [7], “bazaar economy” [8], “shadow or underground economy” [9], and “black economy” [10]. Piore [7] explained that the poor take jobs in the secondary sector market where wages are low, working conditions are bad, employment is inconsistent, discipline is harsh and often arbitrary, and with little opportunity to advance. Drawing from his study in Middle Atlas in Morocco, Geertz [8] used the term ‘bazaar economy’ to refer to “an extreme division of labor and localization of markets, heterogeneity of products and intensive price bargaining, fractionalization of transactions and stable clientship ties between buyers and sellers, itinerant trading and extensive traditionalization of occupation in ascriptive terms”. Enste [9] explained that people engage in “shadow or underground economy” to avoid taxes and restrictions and where illegal workers are employed. Similarly, the “black economy” is described as those who “operate outside the tax and regulatory system” [10].

Considering the various terms and definitions used to describe this sector, the ILO made clear the following concepts of informal sector, informal employment, and informal economy [11]:

Informal sector - a group of production units comprised of unincorporated enterprises owned by households, including informal own-account enterprises and enterprises of informal employers (typically small and non-registered enterprises);

Informal employment - all remunerative work (i.e., both self-employment and wage employment) that is not registered, regulated, or protected by existing legal or regulatory frameworks as well as non-remunerative work undertaken in an income-producing enterprise. Informal workers do not have secure employment contracts, workers’ benefits, social protection, or workers’ representation; and

Informal economy - all economic activities by workers and economic units that are - in law or in practice - not covered or insufficiently covered by formal arrangements.

Recognizing the significant contribution of the informal sector to the Philippines in its economic and social development, on 6 November 2002, the PSA, through the National Statistical Coordination Board Resolution No. 15, adopted an official definition of the informal sector. The conceptual definition states that [12]:

“the informal sector consists of “units” engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned in order to earn a living.

These units typically operate at a low level of organization, with little or no division between labor and capital as factors of production. It consists of household unincorporated enterprises that are market and nonmarket producers of goods as well as market producers of services.

Labor relations, where they exist, are based on casual employment, kinship or personal and social relations rather than formal or contractual arrangements.”

While for statistical purposes, its operational definition refers to:

“household unincorporated enterprises which consist of both informal own-account enterprises and enterprises of informal employers.

Informal own-account enterprises are household unincorporated enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or other households which may employ unpaid family workers as well as occasionally/seasonally hired workers but do not employ employees on a continuous basis.

Enterprises of informal employers are household unincorporated enterprises owned and operated by own-account workers, either alone or in partnership with members of the same or other households which employ one or more employees on a continuous basis.

Particular cases that are excluded: 1) corporations; 2) quasi-corporations; 3) units with ten or more employees; 4) corporate farms; 5) commercial livestock raising; and 6) commercial fishing.”

With a standard definition of the term, it will help in data collection, make way for easier measurement of its contribution to the country, and aid policy makers and decision makers in crafting policies and programs that fully address the specific needs and problems of this sector.

Growth of the Informal Sector

The rise of the informal sector can be attributed to many interrelated factors that sometimes can lead one to wonder which is the cause and which is the effect. The following, however, are identified as the reasons for the rising workers in the informal sector, though these can also be considered as the problems and challenges confronting them.

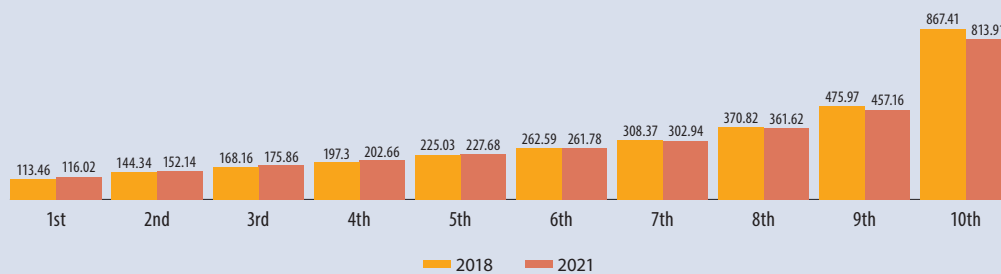
Poverty

Being poor is widely accepted as a major reason why people are in this sector. In the Philippines, poverty is a perennial problem made worse by the COVID-19 pandemic. The preliminary 2021 Family Income and Expenditure Survey (FIES) revealed that the poverty incidence is 18.1%. This means that almost 20 million Filipinos live below the poverty threshold of PHP12,030 per month for a family of five. They could hardly meet their basic food and nonfood needs. In 2018, poverty incidence was at 16.7% or 17.67 million [1].

Income disparity in the country is a major concern. The World Bank identified the Philippines where wealth inequality is high [13]. Figure 7.2 shows that the total annual family income of the top 10% was 7.02 times greater than the total annual family income of the poorest 10%. While the total yearly family income of the group of the upper 20% income group is 4.74 times greater than the income of 20% lowest income group. The same observation was made by the IBON Foundation, who noted that in 2021, the wealth of the 50 superrich Filipinos increased to 30.5% [14].

FIGURE 7.2

2018 AND 2021 AVERAGE FAMILY INCOME BY DECILE



Source: PSA [1].

Note: 2021 figures are preliminary.

The vicious cycle of poverty has inevitable consequences to children as they also take on the informal jobs of their parents. Hence, work in the informal sector can also be understood as a recurring phenomenon as parents unwittingly pass down their work to their children. In the case of the three sisters Aling Lina, Aling Lucy, and Aling Mely, they continued the work of their mother of selling candles near a church in Taytay when she died. The sisters had elementary education only, where one finished Grade 6 and the other two finished Grade 3. Their father died when the sisters were still young so it was their mother who single-handedly brought them up [15].

Low Education Level

Being poor can mean having no choice but to earn a living by any means. Going to school is not a priority as they need to ensure their survival on a day-to-day basis, as in the case of Aling Iska and Mang Jun. When asked why she has been selling candles for many years now near Baclaran Church, Francisca Dapdap or Aling Iska explained that she has no choice. It is the only work she knows how to do as she just finished Grade 6 [15]. Mang Jun who left Tacloban City when he was just in Grade 6 had been to many places and considers any place under the sky as his home. He worked as a driver for taxies, buses, and even ambulances. However, for the past 18 years, he has been a tarot card reader in Quiapo, Manila. He said that due to poverty, he was only able to finish elementary school [16].

The number of out-of-school youths decreased dramatically from 27.7 million in 2019 to 23 million in 2020 which may be due to restrictions in face-to-face classes. However, even before the COVID-19 pandemic, the growing number of out-of-school youths was already a major concern, primarily because of marriage or family matters, lack of personal interest, and financial difficulties [17]. The World Bank described poor families in the country as having more family members, high dependency ratio, and headed by a young male engaged in agriculture work with little formal schooling [14].

A college degree, however, is not a guarantee for employment in the formal sector. In Metro Manila for example, a college graduate has a 44% probability of being informally employed. In less developed areas in the Philippines, like the Autonomous Region in Muslim Mindanao (ARMM), it can increase as high as 88% [18].

Inability to Generate Stable Jobs to a Constantly Growing Population

The population of the country continues to grow annually. The UN projects the population of the country to be more than 129 million by 2030 [19]. At present, it ranks 13th in the list of countries and

dependencies by population, and with a 1.41% equivalent in terms of the total world population [20]. Considering this situation, an increasing number of Filipinos are pushed to find work in the informal sector as jobs are scarce in formal employment.

The IBON Foundation reported that though the Philippine economy is among the fastest growing economies in Southeast Asia, it does not translate to adequate jobs and incomes. The country has the worst unemployment rate in ASEAN, marginally higher than Indonesia at 6.49% in August 2021 and higher than Malaysia and Singapore at 4.3% and 3.2%, respectively, in November 2021. In Vietnam the figure was at 4% while Thailand was at 2.3% in the third quarter [14]. Further, the number of unemployed persons may actually be higher, according to the IBON Foundation, if discouraged and unavailable workers are also included in the official counting methodology by the PSA. Considering the employment situation of the country, temporary, low-paying, and benefit-less work in the informal sector is increasing as Filipinos have to make a living in whatever way possible, just to survive [21]. In short, the failure to generate jobs pushes people to create their own “employment” or means of living.

As of July 2022, five regions have unemployment rates higher than the 5.2% national estimates. The NCR has the highest rate of unemployment at 6.9%, followed by Region IV-A/CALABARZON at 6.3%, Region VI/Western Visayas at 6%, Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) at 5.65%, and Region X/Northern Mindanao at 5.3% [1].

Having the highest unemployment rate in NCR can be explained with the continuous internal migration as those living in villages and countryside still perceive the metropolis as a place where opportunities abound. An example of this is the case of Aling Marilou Neonez, a farmer in the province of Capiz, who left her two children and husband in search of better opportunities in Metro Manila. She now sells fish in Malinta Market after obtaining the capital from loan sharks with an interest rate of 20%. Payment is on an installment and daily basis. She is still struggling financially and pins her hopes on her children to finish schooling as she sees it as the only way for them to get out of poverty [22]. As of July 2021, the population density of Metro Manila reached 21,765 persons per square kilometer, sixty times more than that of the national average [23].

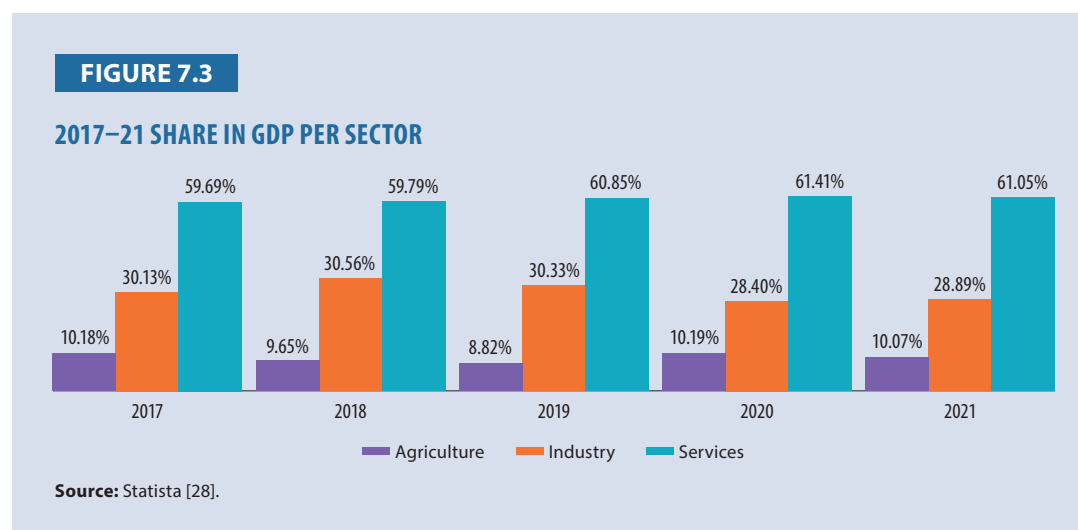
In terms of underemployment, as of July 2022, the rate remained high with 6.54 million people engaged in this sector. Table 7.1 shows that it has spiked compared to the same period in 2021. In July 2022, the rate of visible underemployment or the proportion of those who are working less than 40 hours a week is higher at 9% than the recorded rate of 8.5% in June 2022 [1]. As defined by the PSA, underemployed persons are those who want to have additional hours of work on top of their current job, or they want to have an additional job or a job with longer working hours.

Weak and Slow Development in Agriculture and Industry Sectors

The dominance of the services sector in employment can be interpreted as an indication of the country’s inability to adequately develop its agriculture and industry sectors. Agriculture through subsistence farming or small farming is the primary source of income for more than half of the country’s population. Most farmers are poor with heavy reliance on manual farming practices. Therefore, it is imperative to allocate investments in agriculture, focusing on modernization and farm mechanization, in order to enhance agricultural productivity and yield higher income for farmers. This approach can lead to a reduction in poverty and create opportunities for farmers to venture into agri-business. In the process, these will improve rural employment and overall development [24].

Lowering production costs due to heavy reliance on manual operations is necessary considering that an average of 20 typhoons hit the country annually. Its geographical location along the typhoon belt in the Pacific and the Ring of Fire makes it vulnerable to natural disasters [25]. For example, when Typhoon Rai (local name Odette) hit the country in December 2021, PHP11.1 billion (USD215 million) worth of

agricultural crops and farmlands were damaged. It was estimated that more than 420,00 ha of rice, coconut, and sugarcane across the country were lost due to storm floods [25]. The Department of Trade and Industry (DTI) explained that the slow agricultural output growth is due to land reforms, insufficient investment in modern agricultural techniques, climate disruptions, and a decrease in export potential because of peso overvaluation [26]. All these considered, though the Philippines is an agricultural country, it is now next to PR China as the highest rice importer country. Its imported rice in 2021 is valued at USD1.2 billion and between 2020–21, its imported rice spending increased by 38.9% [27].



To accelerate economic growth and create new job opportunities, many nations commonly seek to attract increased foreign investments. However, the Philippines faces what the ADB terms as ‘stagnant industrialization’, as evident from persisting issues of unemployment, poverty, and low investment. Despite the flourishing services sector, particularly in business process outsourcing, the ADB contends that it is insufficient to effectively address the country’s challenges in development and inclusive growth [29]. The Secretary-General of the Philippine Chamber of Commerce and Industry opined that, “over-reliance on the services sector to fuel the economy is risky and could ultimately be less sustainable” [30]. Unfortunately, Figures 7.1 and 7.3 clearly starkly illustrate the industry sector’s lag behind the services sector in terms of employment and gross domestic share, respectively.

The Oxford Business Group reports that supply deficits and high costs of power and logistics adversely affect the manufacturing competitiveness and limit investor confidence in the country. It noted that the Philippine’s cost of electricity is among the highest globally with power rates the most expensive in Asia. In addition, rigid labor regulations and the migration of skilled workers abroad to seek better opportunities impede its labor competitiveness [30]. Moreover, slow industrial growth can be attributed to poor road conditions, extensive red tape when setting up businesses [31], and the absence of a coherent industrial policy as the government failed to provide the physical, institutional, and social infrastructure for industrialization [32]. Overall, agricultural and industrial productivity was slow while low-skill services sector became the dominant sector in employment and in the economy.

Rising Nonstandard Employment

To achieve significant labor cost savings, flexible hiring arrangements have increasingly become commonplace in both the public and private sectors. Nonstandard employment, as identified by the ILO, includes “temporary employment (casual work and fixed-term contracts); part-time work and on-call work arrangements; triangular employment relationships (temporary agency work and other forms of labor brokering or labor dispatch); and disguised employment or dependent self-employment

relationships (where workers are legally classified as self-employed but someone else directs their work)” [33]. Unfortunately, this type of work arrangement deprives workers of their benefits, unionization, social protection, and security of tenure. Further, it does not promote skill development, career advancement, and contributes to income disparities [34]. In short, considering their employment arrangement, workers are vulnerable to exploitations, abuses, and various unfair labor practices.

TABLE 7.2**INDUSTRY SECTOR'S NUMBER OF NONREGULAR WORKERS IN ESTABLISHMENTS WITH 20 OR MORE WORKERS**

Non-Regular Workers (as of June 2016)	
Probationary workers	356,456
Casual workers	159,277
Contractual/project-based workers	572,034
Seasonal workers	80,660
Apprentices/learners	22,270
Total	1,190,697

Source: PSA [1].

Investigations conducted by the DOLE between June 2016 to April 2018 have exposed major companies engaged in, or suspected of engaging in, illegal practice of labor-only contracting [35]. This is alarming and have raised significant concerns as non-regular workers employed in the industry sector was estimated to range from 1.2 million to 20 million, of which 26%–45% were in contractual employment [35]. The PSA reported that as of June 2016, a total of more than 1.1 million non-regular workers were employed in the industry sector in establishments with 20 or more workers, as presented in Table 7.2.

The IBON Foundation explained that while there was some improvement in the employment numbers based on the February 2022 Labor Force Survey, most of the jobs created were temporary, insecure, informal, and appeared to be self-employment opportunities. According to their analysis, the country was still struggling with its ability to create quality work as eight out of 10 new jobs generated were part-time work [36]. The March 2022 Labor Force Survey estimated that 36.2% or 17.016 million Filipinos were employed in the informal sector [1].

Emergence of Gig Workers

The DOLE defines gig economy as those that “involve work done in digital labor platforms which includes both web-based platforms, where work is outsourced through an open call to a geographically dispersed crowd (“crowdwork”), and through location-based apps (“work on demand via apps”) which allocate work to individuals in a specific geographic area.” [37]. The new workplace landscape is dominated by around 67% of gig workers, most of whom are below 35 years old. Freelancers, for example, either engage in various work, such as data entry, administrative work, customer service, and virtual assistance, or they operate their own businesses, such as web design and graphic design [37].

The COVID-19 pandemic has become a catalyst for the significant growth of gig workers in the Philippines due to limited work opportunities and mobility restrictions. At present, there are 1.5 million Filipinos in the gig economy doing remote work in the country and with an annual growth of more than 200%, it is considered the fastest booming gig economy industry among countries [38]. Revenue for online food delivery alone is projected to reach USD333.3 million in 2022 and a market volume of USD496.70 million by 2027 [39].

With no formal employment relationship, these gig workers have also become subject to abuses and exploitation. Fairwork Philippines examined how ride-hailing and delivery app companies, such as Grab

Car, Grab Express, Angkas, Lalamove, Joyride, Foodpanda, TokTok, Borzo, and Transportify treat their workers in terms of pay, conditions, contracts, management, and representation. It found that most of these companies fail to meet the basic standards of fairness for their workers [40]. Gig workers use their own cars, motorcycles, gadgets and laptops in carrying out their work, which means that they are responsible for the procurement and maintenance of these tools as well as bear the attendant risks during work. Worse, these workers can be easily engaged or disengaged at any time by ride-hailing app companies without the need to comply with labor regulations [41]. In effect, they can be considered as ‘disposable workers’.

Informal Sector Productivity

The social and economic contributions of the informal sector, particularly in developing countries, are very significant. It gives employment opportunities to those who are unable to find formal employment, provides affordable goods and services, and generates income for the growing labor force. The OECD further explains that the informal sector serves as a survival strategy for those with no unemployment insurance and in situations where low wages and pensions cannot sufficiently support the cost of living [42].

However, measuring the productivity of workers in the informal sector is a major challenge due to their characteristics, such as being independent, self-employed, not covered by labor laws and regulations, undocumented, invisible, and untaxed. In the case of the Philippines, the PSA uses informal own-account enterprises and contributing family workers, or self-employed and unpaid family workers, to determine those considered under the informal sector.

TABLE 7.3

EMPLOYMENT PERCENTAGE BY CLASS OF WORKERS

	July 2019 ^a	July 2020 ^a
Class of Worker	100.0	100.0
Wage and salary workers	63.9	60.4
Worked for private household	4.3	3.9
Worked for private establishment	50.3	47.1
Worked for government or government corporation	9.0	9.1
Worked with pay in own-family operated farm or business	0.3	0.2
Self-employed without any paid employee	27.1	29.3
Employer in own family-operated farm or business	2.8	2.6
Worked without pay in own family-operated farm or business (Unpaid family worker)	6.2	7.7

Source: PSA [1].

Note: ^a Estimates are preliminary and may change. Estimates are based on the 2015 POPCEN-based Population Projections.

^a Revised estimates based on the 2015 POPCEN-Based Population Projection.

As shown on Table 7.3, in July 2019 and July 2020, more than 60% of those employed were wage and salary workers. However, it should be noted that in the same period, more than 35% of all employed can be considered as under informal employment. The ILO estimates that nearly two out of five workers are most likely in this sector, where social protection is absent and employment is vulnerable to economic crisis or shock [4].

The OECD reported that more men are exposed to informality globally. In most countries, when it comes to informal employment, more women are engaged in it, particularly in Africa and Asia. A majority of them are domestic workers [43]. In the Philippines, an estimated 6.6 million women participate in the

informal sector. Most of them earn substandard wages and experience various hazards at work, including sexual harassment [44].

In the case of domestic workers, their earnings are usually less than half of average wages and more often, are excluded from minimum wage protection [45]. This situation is especially prevalent in the Philippines. As of September 2022, the National Wages and Productivity Commission (NWPC) has set the monthly minimum wage of domestic workers in the NCR at PHP6,000 while the daily minimum wage in the same region ranges between PHP533–570 [46]. This significant disparity in the monthly minimum wage of domestic workers and other minimum wage earners is also observed nationwide, as highlighted in Table 7.4.

TABLE 7.4

2022 MONTHLY MINIMUM WAGE OF DOMESTIC AND DAILY MINIMUM WAGE OF PRIVATE SECTOR WORKERS

Region	Monthly Minimum Wage of Domestic Workers (in PHP)	Daily Minimum Wage of Private Sector Workers (in PHP)
NCR	6,000	533–570
CAR	4,500	400
I	5,000	372–400
II	5,000	375–400
III	4,500–5,000	344–460
IVA	4,000–5,000	350–470
IVB	4,500	329–355
V	4,000	365
VI	4,500	410–450
VII	4,500–5,500	382–435
VIII	4,500–5,000	345–375
IX	3,500–4,000	338–351
X	3,500–4,500	378–405
XI	4,500	438–443
XII	4,000–4,500	347–368
XIII	4,000	350
BARMM	-	306–341

Source: National Wages and Productivity Commission [46].

The ILO noted that domestic work has both social and economic values. Having monthly earnings can contribute to the financial needs of a domestic worker's family thus preventing them from being poverty stricken. At the same time, women who are able to employ domestic workers can contribute to the social goal of gender equality as they can take on paid work [47]. Informal work also allows women to fulfill their household tasks while at the same time engaged in income-generating activities. There is autonomy in informal work and it offers more flexibility in terms of time demand [48].

Informal sector businesses sometimes prefer to be unregistered or unlicensed not because they intentionally want to avoid paying social security contributions and taxes or disobey labor regulations, but more out of necessity. They simply cannot afford to pay and comply with regulations, considering that their income is irregular and too low [42]. This is the case of Mang Jun, whose daily earnings vary depending on the number of customers who ask for his services. He shared that every Friday and during payday, he earns more than usual. His income is also affected because each tarot reader in their area gives PHP900 to policemen every Friday. Otherwise, they will be sent to jail on account of obstruction and pay a PHP500 fine [16].

Going to the Ground

In a series of one-on-one interviews and group interviews conducted with informal workers, they shared their earnings and the number of hours they work per day. They each had a story to tell, as narrated below:

- 1) Johnnie Alvarez, 49 years old, married, can be considered a newbie e-hailing driver. He has just started being a Grab driver in April 2022. He was forced to engage in this work after he was retrenched along with 499 others by his previous employer. The separation pay he received was used to buy a car for his new venture. According to him, his previous employer was generous to workers in terms of benefits, but what he liked most now is being his own boss with flexible working time. Usually, he starts work as a Grab driver from 11am to between 10–11pm, six days a week. His earnings per day is between PHP3,500–PHP4,000, but the net income after deducting commissions by the Grab company, gasoline, and other expenses like meals, is around PHP2,000. He has temporarily stopped paying for his monthly Social Security System (SSS) contribution due to financial constraints. However, he plans to make his SSS payments active as a self-employed member when he reaches the age of 55.
- 2) Interviewed on 15 November 2022, Ado Zita de Vera, 40 years old and married, has been an e-hailing driver with Grab for two years. He worked as a bellboy in a hotel in Saudi Arabia but his wife no longer allowed him to go back to Saudi Arabia when his contract expired. To make ends meet, he decided to become a Grab driver, which he describes as less stressful than his previous job as a bellboy. Ado works six days a week between 12 to 13 hours per day. His average bookings in a day are 19, but on a bad day, he gets only 10 bookings. He earns PHP3,000 per day with a net income of PHP1,500 after accounting for gasoline, meals expenses, and Grab commission.
- 3) In 2015, Eddie Macoy, 52 years old, became a part-time Grab driver. However, since April 2021, it became his full-time job as his previous company closed due to the pandemic. He works 10 hours a day, five times a week. On a given day, his gross earnings are PHP4,500 with a net income of PHP2,500. According to Eddie, his income as a Grab driver is almost double from what he earns as a regular employee before. He sees himself engaged in this job for a long time to come. His wife has no paid work and he needs to support his two children who are both in college and another primary school-going child.
- 4) Marissa Anua, 47 years old, married with three children, and a high school graduate is able to contribute to the finances of her family by serving clients at the comforts of their homes by doing manicure, pedicure, hair rebond, haircut, hair color, and foot spa. She learned to do these services by observing her aunt at work. As an on-call beautician, she has no fix work hours as this depends on her clients. Some days she has no clients but there are also days when she is fully booked, particularly when there are occasions in the community, like weddings or graduations. She is not keen on establishing her own beauty parlor as she will have to comply with numerous requirements or face the difficulty in setting up a business. She also does not want to become a hired worker in a parlor because her earnings would be less due to having to give commissions to the parlor owner. For a home service haircut that takes around 15 to 20 minutes, Marissa charges PHP50. Depending on the number of clients served in a day, she can earn PHP300, though there are days where she earns nothing. However, when someone asks her to do hair rebonding, which can take between seven to nine hours, depending on the length of the client's hair, the charges are between PHP1,000–PHP2,000. According to her, though she is a beneficiary of 4Ps, a Pantawid Pamilyang Pilipino Program where she receives monthly cash grants from the national government, being an on-call beautician significantly helps in managing the daily expenses of her family.

- 5) Adoracion Ortega Cuaresma, 62 years old, married with five adult children, is an on-call masseuse, laundry woman, and house cleaner in their community since she was 16 years old. As an on-call masseuse, she has no fix earnings as this depends on how much her clients pay, which ranges between PHP50 to PHP100. This also depends if there is a customer in the day. It is not unusual for her to have no clients for several days. For laundry and house cleaning, she gets PHP300, which is about an eight-hour job. In a week, she gets to clean, at most, three households, which enables her to earn approximately PHP900 per week. Again, this is dependent on requests for her services as sometimes there is none in a week or even a month. To augment her income, she sometimes raises pigs which she sells after two months. Adoracion earns between PHP5,000–PHP7,000 per pig. She is not a member of SSS and PAG-IBIG (Home Development Mutual Fund). As a privilege given to the country's senior citizens or a Filipino who is at least 60 years old, she automatically becomes a Philhealth member, even if she does not pay monthly contributions.
- 6) Mabie Conde, 55 years old, married with three adult children, was once a Barangay Health Worker (BHW). She finished midwifery but now runs a "sari-sari" store or sundry shop where she sells various goods and over-the-counter medicines. As a former BHW, she saw the need to put up a store which sells medicines because their place is far from the town center. Mabie's sales in a day range from PHP100–PHP500 with a net income of anywhere between PHP25 to over PHP100. Her average sales per month is PHP3,000. She shared that there are days though when there are no sales at all.
- 7) A 52-year old on-call driver, Wilijado Arnaldo, considers himself single as he is not married to any of the mothers of his seven children. He finished secondary school and was once formally employed as a driver in several companies. However, he lost his job because either his contract expired or the company had closed down. For several years now, he serves various clients as a driver, depending on the need. Sometimes there are no calls in a week. Wilijado earns PHP1,500 per day for a 24-hour service. His average monthly income is between PHP10,000–PHP20,000.
- 8) Josefina Madamca, 59 years old, married, and a high school graduate, works as a farmer during harvest season and an on-call laundry woman and house cleaner. During harvest time, she is paid PHP5 per bundle of *palay* or rice. Josefina starts to harvest rice at seven in the morning and ends at four in the afternoon. To make the most of her time, she sometimes skips lunch or eat while working in the rice fields. In a day, she is able to gather 90 to 120 bundles which is equivalent to PHP450 to PHP600. Overall, she earns PHP1,500 per week at the farm or PHP6,000 per month. When the demand for her services at the farm is no longer needed, she does laundry and house cleaning. She is paid PHP350 for this work which starts at seven in the morning until five in the evening. There are weeks when there is no call at all. But if she is lucky, she sometimes serves two households in a week which earns her PHP700 per week.
- 9) Jovie Verzon, 47 years old with three children, is a BS Veterinary Medicine graduate. She runs two stores, one is a *sari-sari* store which sells various merchandises, from food to other items that Filipinos need on a daily basis, and the other is an animal feeds store for pigs, chicken, and fish. Her stores are open for 12 hours, from six in the morning to six in the evening. Jovie's average monthly income from the sari-sari store is PHP3,000 while the feeds store yields more than PHP30,000. She is not a member of SSS, PAG-IBIG, and Philhealth because the offices where she can apply for membership are too far from her place of residence.
- 10) Jonathan Ascado is a 50-year-old farmer. He finished Grade IV and has one child. At the farm, he does different tasks, like planting rice, ripping rice, planting fruit trees, cutting grass, taking care of chickens, and other tasks, depending on what is being asked of him. Twice a year during harvest season or about four months annually, he earns PHP10,000 per month. He said that he does not know or is not aware of SSS, PAG-IBIG, and Philhealth or of the social protection he can get from government programs.

- 11) For 15 years now, Joel Palacay works as a tricycle driver and farmer. He is 52 years old, married with two children, and completed secondary school. His work at the farm starts at seven in the morning and ends at five in the afternoon. Joel earns between PHP9,000–PHP14,000 per month, but only for three to four months in a year. Thus, he works as a tricycle driver during market days of Monday and Thursday with an income of PHP1,500–PHP2,000 per month. He said that his income was significantly reduced during the height of the COVID-19 pandemic, which considerably worsened the quality of his family's life.
- 12) Oliver M. Pait is 41 years old and married with two children. He reached first year college as a BS Electrical Technology student but was not able to pursue his degree. He worked as a security guard but had to quit to help at his family at their farm. From the age of 12, Oliver was already exposed to farm work. Now, he is not just a farmer but also works as a carpenter and driver. As a farmer, he earns PHP350 per day for an eight-hour of work. For the same amount of time, he can earn between PHP400–PHP450 per day as a carpenter though this depends on when there is a client. He estimates that in a year, he works an average of only 15 days as a carpenter. During harvest season, he serves as a driver by transporting rice. He earns around PHP16,000–PHP24,000 for the entire season.
- 13) Nilda Arzadon has been selling fish for 18 years in their community. She is 52 years old, married with four children, and finished secondary school. As a fish vendor, she earns between PHP1,300–PHP1,800 per day. She sells fish practically every day from nine in the morning until seven at night. Nilda said that she stopped paying for her SSS and PAG-IBIG contributions as she needs money at present.
- 14) A secondary school graduate, 28-year-old Marvin Pasco, single, works as a cook in a restaurant. He earns the minimum wage of PHP570 per day for an eight-hour work, six days a week. Though there is a work contract, he said that it can actually be terminated any time. And with no leave benefits, he is on a no-work-no-pay basis.
- 15) Edward Ramirez is a 26-year old single man and a high school graduate who works as a janitor/utility worker for an agency which specializes on janitorial services. Usually, his work contract is only good for one year and he has been employed by various janitorial services agencies. Edward has no leave benefits and is on a no-work-no-pay arrangement. His work schedule is from seven in the morning to four in the afternoon, Monday to Saturday. He earns PHP537 per day but his net income is much less than this amount because of transportation and meal expenses amounting to PHP180 per day.
- 16) Domingo Tragada works in a vulcanizing shop. He is 42 years old, finished first year in secondary school, single, and has been in this job for 30 years. He works 10 hours every day at the vulcanizing shop and earns between PHP400 to PHP2,000 per day, depending on the number of customers. Domingo said that the payment arrangement is 50/50, where 50% of what customers pay goes to the owner of the shop and the other 50% goes to him. He used to pay for his monthly SSS contributions but he stopped during the pandemic because his earnings decreased significantly.
- 17) Lily Pacalna, 33 years old, married with two children, originally hails from Mindanao. She was able to land a job as a security guard in Metro Manila. However, her security agency had not renewed her contract. At present, she still works as a security guard but not under an agency. The job order arrangement is made by a university. However, the job is not a permanent position and Lily can be jobless at any time. She receives PHP867 per day for a 12- hour shift.
- 18) A food vendor for almost 10 years, Arlyn Terante is popular among students and staff alike near the university where her stall is located. She is 54 years old, married, has four children, and was able to reach second year college in a secretarial course. Together with her husband, they go to the market

at six in the morning to buy bananas, sweet potatoes, and other needs for their store. At about one in the afternoon, they start to cook, selling snacks, such as banana fritters, *camote* (sweet potato) fritters, fish balls, squid balls, and *camote* fries. Their stall is open for as long as there are still food products available to sell or they stay until eight in the evening at the latest. For their effort, their net income per day is around PHP700–PHP1,500.

- 19) Catalina Paradero is a helper at a *carinderia* (a type of small restaurant). She is 52 years old, married, has five children, and finished second year in high school. Previously, she ran a small store selling fruits and vegetables, but decided to close it as it was no longer profitable. As a helper in a *carinderia*, she works nine hours a day, starting at five in the morning and ends at two in the afternoon. She is paid PHP200 per day or PHP6,000 per month.
- 20) On 20 December 2022, a group interview was conducted with two garbage collectors, Owen Maniedo and Jomel Calagos. Owen is 20 years old, married, has a one-year-old child, and reached Grade 6 in primary school. Jomel is 21 years old, married, has a three-year-old child, and finished primary school. They shared that as early as five in the morning, they have already reported for work. However, since there are two shifts in a day, sometimes they are forced to work until two or four in the morning of the following day. They receive PHP400 for every trip of garbage collection they are able to complete.
- 21) Hired by an agency as a janitress, Jocelyn Capilo works from six in the morning to four in the afternoon, six days a week. She is 47 years old, married with three children, and finished secondary school. Her contract is only valid for one year, renewed after a year, if she is lucky, and is on a no-work-no-pay arrangement. Jocelyn gets paid PHP570 per day. She also does other tasks, such as house cleaning, when time permits.
- 22) Another group interview was conducted on 22 December 2022 with three maintenance workers of a real estate development company - Jomarie Calawgaw, Rodolfo Pantosa, and Rowena Timbre. Jomarie is 48 years old, married and works as a grass cutter. Rodolfo is 43 years old, married with three children, and is a tractor operator. Rowena is 53 years old, has a live-in partner, and is a utility maintenance worker. Their job is to maintain the landscape of the various exclusive subdivisions developed by their employer. Hence, they are assigned to different places depending on where they are asked to go. They receive PHP570 per day for eight hours of work, from Monday to Saturday. After taking into consideration their transportation and meal expenses, the actual amount is only PHP300 per day. They said that though they have been with the company for many years now, there is always the fear that they can be out of work on any given day.
- 23) Fifty three-year old Melinda Tomalabcad sells various food products like ice candy, banana fritter, *camote* fritter, and coconut milk delicacy to elementary students. Married with five adult children, she opens her stall at nine in the morning until three in the afternoon during school days. Melinda's customers are basically elementary students and sometimes these students pay for their purchases after a few days. She earns between PHP100 to PHP150 per day.
- 24) Ariel Paguinto is a *taho* vendor. *Taho* is made of soft tofu with tapioca pearls and caramelized sugar. Ariel is 39 years old, married with three children. His family lives in the province of Pampanga but he is based in Metro Manila because of his livelihood. He has been a *taho* vendor for 21 years now. He starts to peddle *taho* around the community in two time slots a day, from 6.30 a.m. to 11.00 a.m. and 3.00 p.m. to 6.00 p.m. He earns between PHP1,000–PHP1,200 for a whole day's work. If Ariel sells *taho* only in the morning, he earns between PHP600–PHP900.
- 25) Once a cook's helper in a restaurant, Emmanuel Ermino is at present a construction worker. He is 32 years old, married with three children, and an elementary school graduate. As a construction

worker, he gets PHP400 per day for an eight-hour work and food is provided. If there is a need to work overtime, Emmanuel is paid an extra PHP50 per hour.

- 26) Melchor Macam is an all-around freelance construction worker. He does welding, plumbing, cladding, painting, electrical, and other related works. Melchor is 41 years old, a widower with five children. As a freelance construction worker, he has no fix time at work. It depends on the arrangement with his clients. Depending on the type of work he does, he earns between PHP600–PHP800 a day and meals are usually included.

INFORMAL SECTOR'S CONTRIBUTION TO THE ECONOMY

Measuring the contribution of the informal sector workers to the Philippine economy is indeed a major challenge. The PSA uses the term “unorganized sector” to refer to those not covered by the Philippine Statistical System’s establishment surveys. For a more accurate estimation, it included the unorganized activities in the following industries: (i) agriculture, hunting, forestry, (ii) mining and quarrying; (iii) manufacturing; (iv) construction; (v) electricity, gas, and water supply; (vi) transport, storage, and communication; (vii) trade and repair of motor vehicles, motorcycles, personal, and household goods; (viii) financial intermediation; (ix) real estate, renting, and business activities; and (x) other services which includes *carinderia* operations, food street vending, home-service beauticians, barber shop operations, home-based tutorial services, household help services, and other service activities. Based on the report by the PSA, for the period 2006 and 2016, the share of the unorganized sector to the GDP of the country increased, except in the services sector.

TABLE 7.5

SHARE OF THE UNORGANIZED SECTOR TO NOMINAL GDP BY MAJOR INDUSTRY, 2006 AND 2016

Sector	2006 (%)	2016 (%)
Agriculture	67.1	96.4
Industry	22.4	31.4
Services	41.6	26.4
Total	39.1	34.7

Source: PSA [1].

During the 55th Annual Meeting Conference of the Philippine Economic Society (PES), Vivian Illarina, Assistant National Statistician of the PSA, estimated that the contribution of the informal sector to the GDP in 2016 was PHP5.03 trillion [49]. That year, the GDP of the country was estimated to be at USD318.6 billion [50]. Table 7.6 shows the contribution of both sectors and the difference to the 2016 GDP, using the prevailing exchange rate at that time of USD1 to PHP47.4925 [51].

TABLE 7.6

2016 DIFFERENCE OF GDP CONTRIBUTION OF FORMAL AND INFORMAL SECTORS

Economic Sector	Formal (PHP trillion)	Informal (PHP trillion)	Difference (PHP trillion)
Agriculture, hunting, fishery, forestry	1.42	1.35	0.07
Industry	4.5	1.4	3.1
Services	8.62	2.28	6.34
Total	14.54	5.03	9.51

Source: PSA [1].

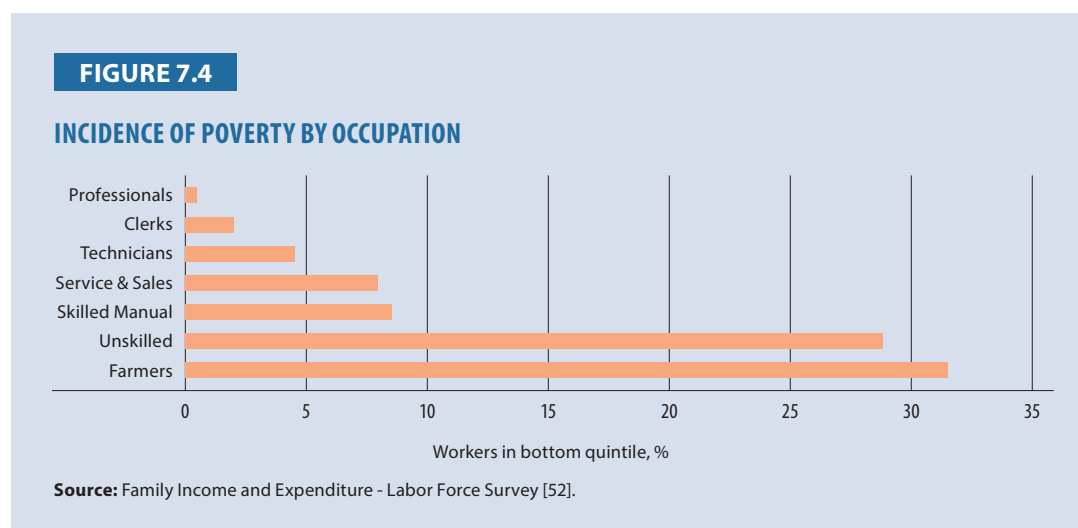
Table 7.7 provides a 10-year period estimate from 2008 to 2018 on the GDP contributed by both organized and unorganized sectors. It also highlights that between the two sectors, the organized sector has consistently and significantly been the primary contributor to the country's GDP share. Throughout the decade, the gap between the two sectors has shown a consistent increase, except in 2010.

TABLE 7.7**GDP BY ORGANIZED AND UNORGANIZED SECTORS, 2008-2018, AT CURRENT PRICES**

Year	Organized (PHP'million)	Unorganized (PHP'million)	Difference
2008	4,908,713	2,812,190	2,096,523
2009	5,110,542	2,915,601	2,194,941
2010	5,863,111	3,140,369	2,722,742
2011	6,129,505	3,578,826	2,550,679
2012	6,710,249	3,850,840	2,859,409
2013	7,427,156	4,111,255	3,315,901
2014	8,140,355	4,493,833	3,646,522
2015	8,694,526	4,627,515	4,067,011
2016	9,432,635	5,047,714	4,384,921
2017	10,346,601	5,460,995	4,885,606
2018	11,735,905	5,690,297	6,045,608

Source: PSA [1].

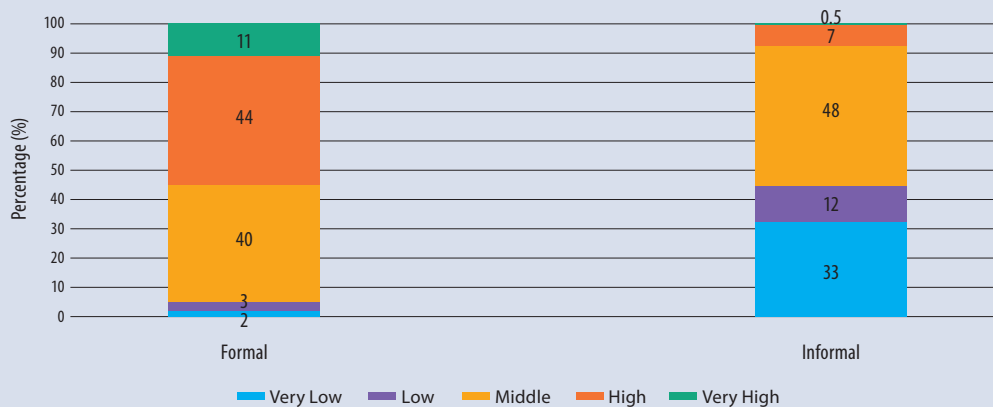
According to Figure 7.4, unskilled workers and farmers have a higher incidence of in-work poverty compared to those who possess higher technical skills. For example, almost 30% of unskilled workers belong to the bottom income quintile, whereas only 5% of technicians find themselves in the same income level [52].



The disparity in the wage distribution between formal and informal workers can be seen in Figure 7.5. As reported by the World Bank, formal workers typically earn more than the informal counterparts. However, it is worth noting that some informal workers surpass the low-pay threshold and earn relatively higher incomes [53].

FIGURE 7.5

WAGE DISTRIBUTION BY FORMALITY



Source: World Bank [53].

Note: Very low pay = less than 50% of median wage; low pay = less than 67% of median wage; middle pay = less than 150% of median wage; high pay = less than three times the median wage; very high pay = three times the median wage or higher.

The World Economics estimated that the informal economy of the country is estimated to make up 34.1% of its GDP at PPP levels or equivalent to USD435 billion [54]. In another estimate, it was suggested that the 63% Filipino informal workers contribute PHP5.013 trillion or approximately USD98 billion to the economy, which is almost one-third of the national economy [35]. Nonetheless, the COVID-19 pandemic's biggest impact was on the informal workers as well as those in nonstandard forms of employment. Prolong lockdowns resulted in displacement of workers and closure of establishments. The economic divide widened further as these workers, who typically live on hand-to-mouth existence, faced increased uncertainty, instability, and insecurity at work, making it increasingly difficult to lessen the economic and social impacts of the pandemic on them [55]. It is thus imperative to put in place corrective measures and countermeasures that will address the challenges and concerns of the informal sector workers.

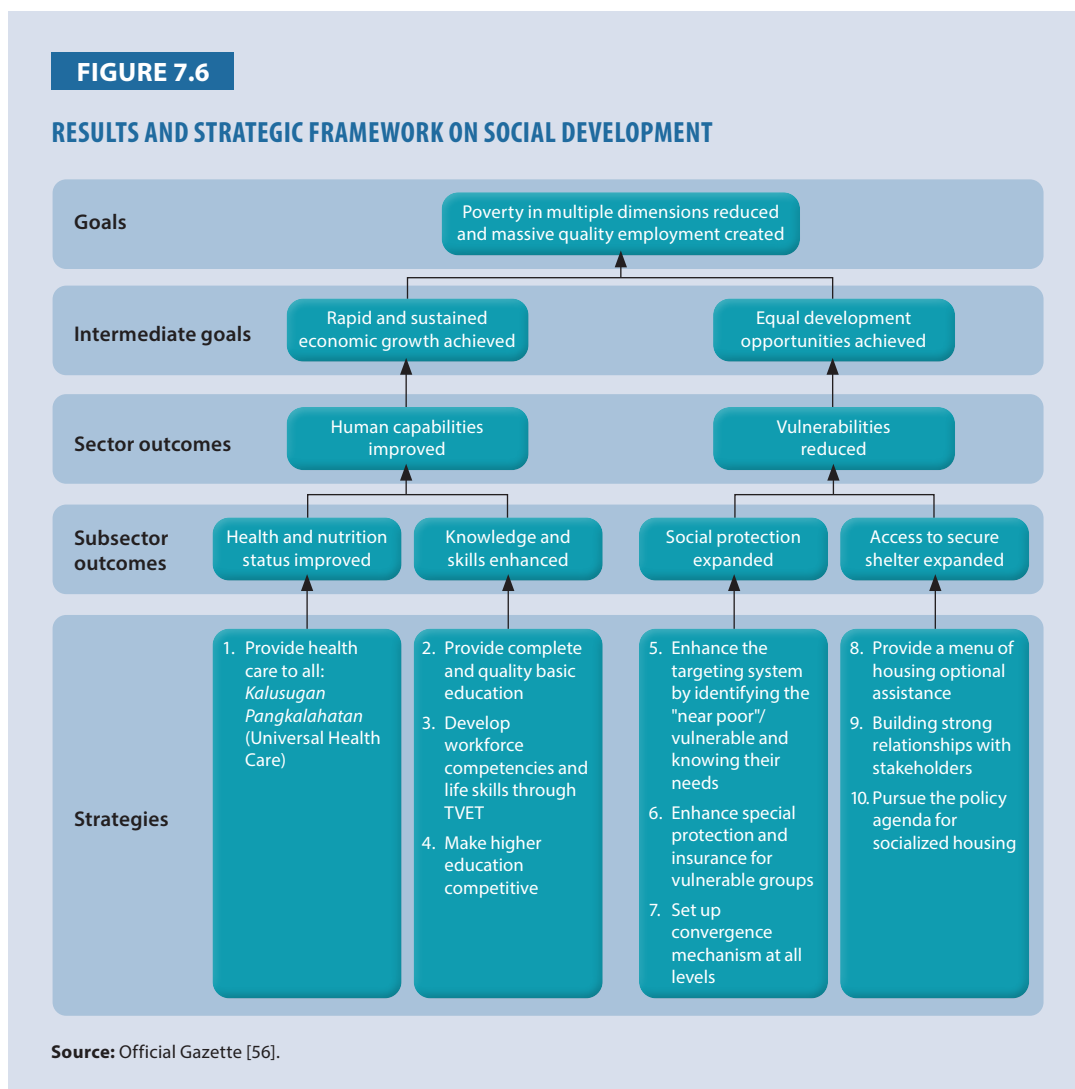
PROGRAMS AND INITIATIVES

Benigno Aquino Administration from 2010 to 2016

The Philippine government implemented programs and policies to help improve the quality of life for those in the informal sector. During the tenure of former President Benigno S. Aquino Jr., Executive Order No. 43. S. 2011 reorganized the Cabinet into five smaller clusters to give more focus to key result areas, such as: (i) Good Governance and Anti-Corruption; (ii) Human Development and Poverty Reduction; (iii) Economic Development; (iv) Security, Justice, and Peace; and (v) Climate Change Adaptation and Mitigation. Specific programs were designed under each cluster to fulfill the government's social contract with the Filipino people [56].

One significant program, for instance, under the Human Development and Poverty Reduction Cluster, was the Pantawid Pamilyang Pilipino Program (4Ps), which aims to empower the poor and marginalized members of society. It was considered a flagship poverty alleviation initiative of the Aquino Administration meant to break the cycle of intergenerational poverty by providing social assistance and development opportunities to the identified poorest of the poor. Under this program, the beneficiaries received

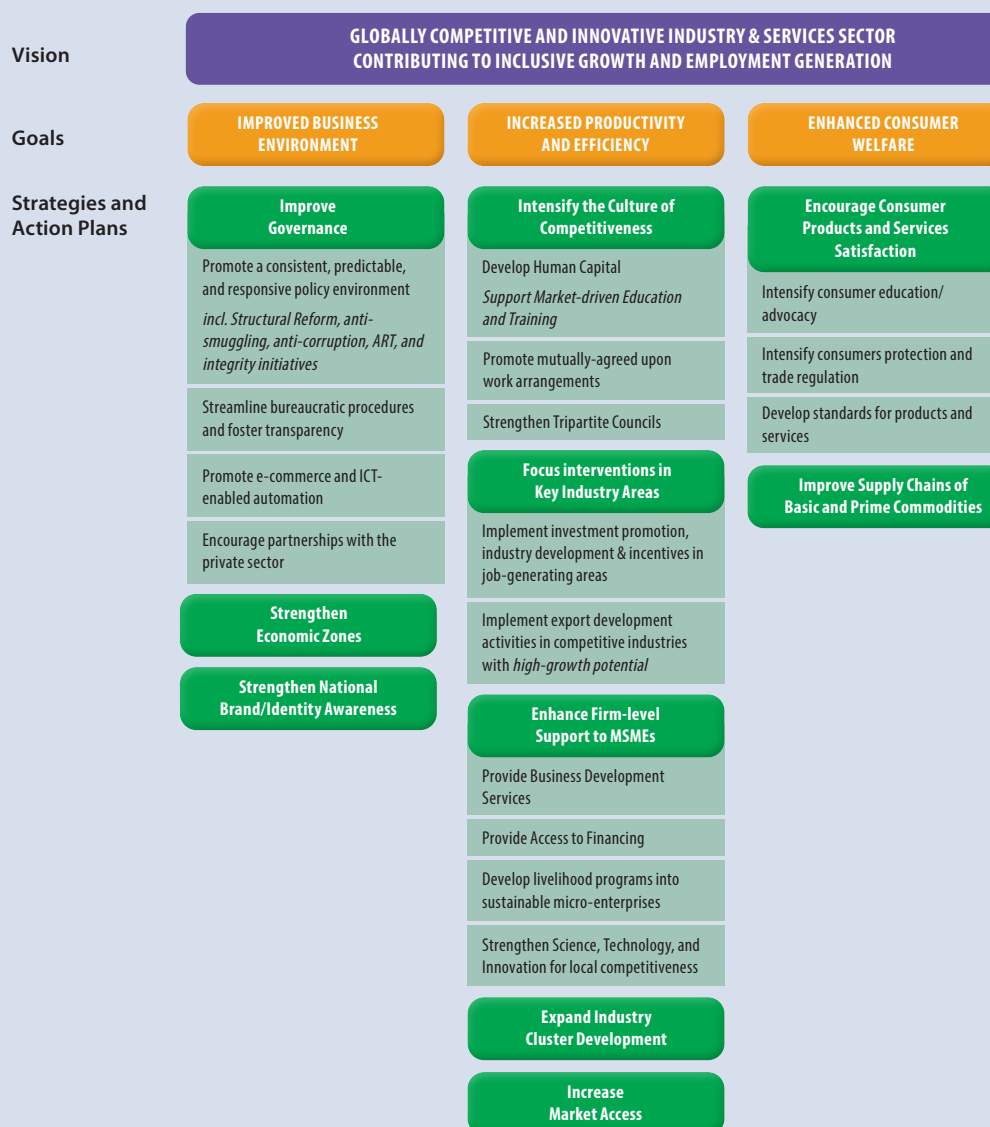
conditional cash incentives to improve the health, nutrition, and education of their children between 0–18 years old. Further, health check-ups for pregnant women and children aged 0–5 were provided, along with deworming for those between 6–14 years old, enrollment of children in daycare, elementary, and secondary schools, and family development sessions [57]. Figure 7.6 shows the strategies toward meeting the social development targets.



The Economic Development Cluster meanwhile saw the adoption of the Philippine Development Plan 2011–16 with the goal of promoting inclusive growth, sustainable development, mass employment, and poverty reduction, all within a framework of good governance and anti-corruption. The plan emphasized its strategic development policy framework which focused on “improving transparency and accountability in governance, strengthening the macroeconomy, boosting the competitiveness of industries, facilitating infrastructure development, strengthening the financial sector and capital mobilization, improving access to quality social services, enhancing peace and security for development, and ensuring ecological integrity” [58]. To achieve improved business environment, increased productivity, and efficiency and enhanced consumer welfare, the Aquino Administration identified strategies and action plans for industry and services, as shown in Figure 7.7.

FIGURE 7.7

STRATEGIC FRAMEWORK FOR INDUSTRY AND SERVICES



Source: Philippine Development Plan [58].

President Benigno S. Aquino Jr. placed significant emphasis on poverty alleviation and good governance during his tenure that his battle cry was: “*Kung walang corrupt, walang mahirap*” (If there’s no corruption, there’s no poverty). Among the notable achievements of his administration were [59]:

- Increase in basic education budget from PHP161.4 billion in 2010 to PHP410.4 billion in 2016
- Increase of beneficiaries of Conditional Cash Transfer (CCT), from 786,523 households in 2010 to 4,377,762 households
- Employment increase from 92.7% in 2010 to 94.2% in 2016

- Decrease in unemployment rate from 7.3% in 2010 to 5.8% in 2016
- Reduction of hunger in households from 23.4% in 2009 to 11.7% in 2015
- Reduction in the number of out-of-school children from 11.7 million in 2008 to 5.2 million in 2013
- Expansion of the Philhealth coverage from 47.07 million members in 2010 to 93.45 million in 2015
- Reduction in poverty incidence rate from 26.3% in 2009 to 21.6% in 2015
- Increase in budget for social services from PHP415.8 billion (28%) in 2010 to PHP1.11 trillion (36.8%) in 2016
- Increase in budget for state universities and colleges (SUCs) from PHP22.4 billion in 2010 to PHP47.4 billion in 2016

Some landmark legislations under the Benigno S. Aquino Jr. presidency were [60]:

- **Enhanced Basic Education Act of 2013** - To be in line with the global norms, two more years of basic education were added and mandated kindergarten for all five year olds. It was aimed to give students enough time for mastery and prepare graduates for university education, mid-level skill development, employment, and entrepreneurship
- **Responsible Parenthood and Reproductive Health Act of 2012** - Gave Filipinos access to the reproductive health information, services, and care required for responsible and safe family planning and childrearing
- **Domestic Workers Act or *Batas Kasambahay*** - Promoted awareness of domestic workers' rights to humane treatment, access to education, and medical care while raising the minimum wage in various locations
- **National Health Insurance Act of 2013** - Made health services more readily available to Filipinos in need and required that all citizens be enrolled in health care

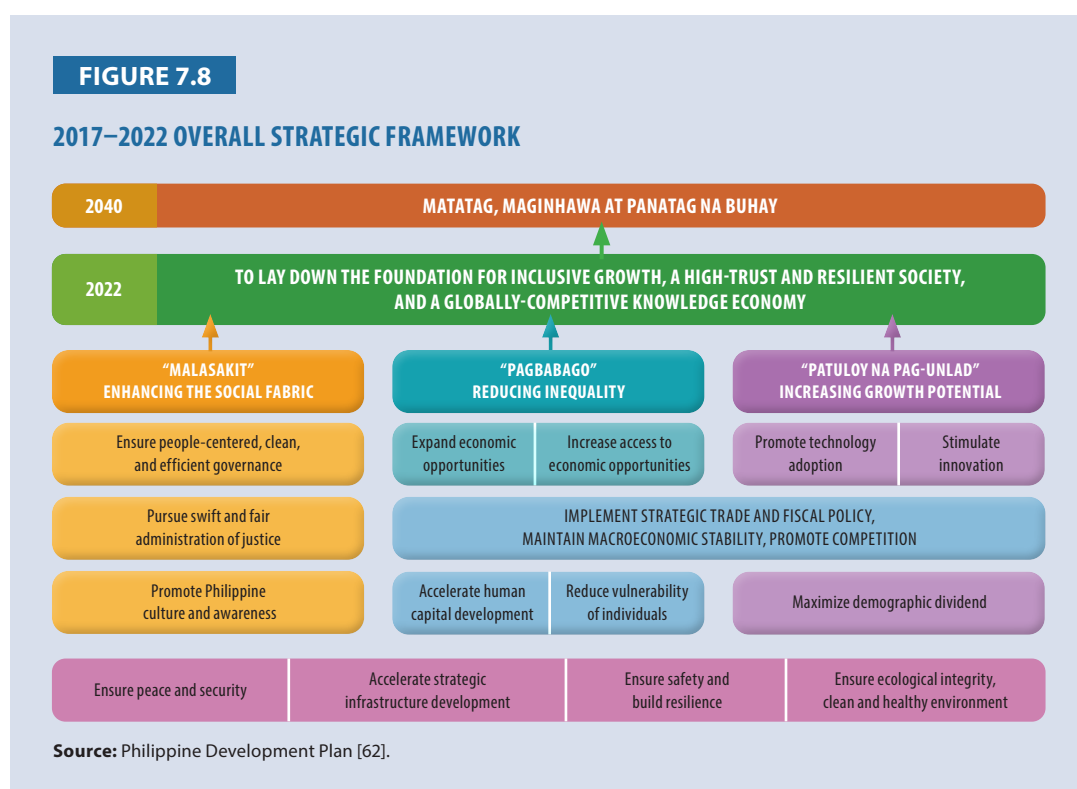
Utilizing the selected social development indicators set by the BS Aquino Jr. administration, his government had an achievement rate of more than 50% of its targets, especially in enhancing knowledge and skills at the basic education level, provision of social safety through health insurance, boosting mothers' health and nutrition, providing socialized housing, and more. However, it failed in increasing higher education enrollment. In terms of attaining inclusive growth and poverty reduction, there was minimal progress with an average poverty incidence of 21.6% remaining stagnant from 2006 to 2015 [59]. In short, poverty goals were not met and the country continued to fall short of the Millennium Development Goal (MDG) of halving extreme poverty ahead of 2015.

Rodrigo Duterte Administration from 2016 to 2022

On 30 June 2016, Rodrigo Roa Duterte took over the presidency of the country and steered the country with the following 10-Point Economic Agenda [61]:

1. Continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies.
2. Institute progressive tax reform and more effective tax collection, indexing taxes to inflation.

3. Increase competitiveness and the ease of doing business. This effort will draw upon successful models used to attract business to local cities (e.g., Davao) and pursue the relaxation of the constitutional restrictions on foreign ownership, except as regards land ownership, in order to attract foreign direct investments.
4. Accelerate annual infrastructure spending to account for 5% of GDP with public-private partnerships playing a key role.
5. Promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.
6. Ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies.
7. Invest in human capital development, including health and education systems, and match skills and training to meet the demand of businesses and the private sector.
8. Promote science, technology, and the creative arts to enhance innovation and creative capacity toward self-sustaining, inclusive development.
9. Improve social protection programs, including the government's conditional cash transfer program to protect the poor against instability and economic shocks.
10. Strengthen implementation of the responsible parenthood and reproductive health law to enable especially the poor couples to make informed choices on financial and family planning.



In order to achieve its socioeconomic agenda, three major pillars of Filipino values were harnessed, such as “*Malasakit*” (concern), “*Pagbabago*” (change), and “*Patuloy na Pag-unlad*” (continuous development). As shown in Figure 7.8, the target was to have a solid foundation for more inclusive growth, a trustworthy and resilient society, and a globally competitive knowledge-based economy by 2022 [62].

The Duterte Administration is best remembered with his “Build, Build, Build” program which is seen to stimulate the economy and generate mass employment. From 2016–20, the program provided 6.5 million jobs to Filipinos, completed the Laguna Lake Highway to connect the Rizal Province to the eastern part of Metro Manila, Tarlac–Pangasinan–La Union Expressway (TPLEX), Plaridel By-Pass Road Phase II, North Luzon Expressway (NLEX) Harbor Link Segment 10 and C3-R10 Section, Skyway Stage 3, Alabang-Sucab Skyway Extension, Estrella-Pantaleon Bridge, Bonifacio Global City-Ortigas Center Link Road Project, Binondo-Intramuros Bridge, expanded highways and expressways, and constructed a number of short- and long-span bridges [63]. Since the program began in July 2016, more than 26,000 km of roads were constructed, maintained, and improved while 5,555 bridges were either built or rehabilitated nationwide [64]. In addition, the following accomplishments were likewise recorded [65]:

- From 2016 to March 2021, 1.7 million disaster-affected farmers and fisherfolk were granted agricultural insurance amounting to PHP12.37 billion
- Between 2015 and 2018, poverty incidence among farmers and fisherfolk were reduced by 9.2% and 10.7%, respectively
- 229,289 ha of agricultural lands were distributed to 166,217 Agrarian Reform Beneficiaries (ARBs) from July 2016 to May 2021; in the same period, 2,651,211 ARBs were trained on microfinancing, business development, credit management, product enhancement, and basic cooperative management
- 928,953 homeless and underprivileged families were provided housing from July 2016 to March 2021
- Launched the ‘Tsuper Iskolar Program’ to support drivers and operators affected by the Public Utility Vehicle Modernization Program (PUVMP) where 20,866 recipients benefited from free skills and entrepreneurship training
- 732,690 displaced workers, underemployed, and unemployed were provided with emergency employment under the *Tulong Pangkabuhayan sa Ating Disadvantaged/Displaced Workers* (TUPAD)
- 427,774 were provided with livelihood assistance under the DOLE Integrated Livelihood Program (DILP-Kabuhayan)

The Duterte Administration also extended assistance to vulnerable and marginalized workers during the COVID-19 pandemic. Some of these included [66]:

- A total of PHP20 million worth of assistance to 800 public utility vehicle drivers, solo parents, ambulant vendors, marginalized fisherfolk, persons with disabilities, and other vulnerable workers in the NCR
- Provision of either bicycle units, electronic loading business, bigasan package, frozen goods, home-care products, Nego-Kart (*Negosyo sa Kariton*), or banca to recipients of the DILP
- Provision of emergency employment for 10 days to beneficiaries of the TUPAD/Displaced Workers program with a salary amounting to PHP5,370 each

Some notable legislations were also passed during the Duterte Presidency. Among them were:

- **Universal Access to Quality Tertiary Education Act (RA 10931)** - To provide free tuition and exemption from other fees in SUCs, local universities, and colleges in the country [67]
- **Tax Reform for Acceleration and Inclusion (TRAIN) (RA 10963)** - To provide tax relief to 99% of income tax earners in the country. Some of its significant provisions included exempting individuals earning PHP250,000 annually from personal income tax; giving small and micro self-employed professionals the option to pay a flat tax of 8% on their gross sales if it's below PHP3 million; and increasing the value-added tax (VAT) threshold from PHP1.9 million to PHP3 million [68]
- **Ease of Doing Business and Efficient Government Service Delivery Act (RA 11032)** - The objective of this law is to improve the current systems and procedures of government services with prompt actions or resolution of all government transactions with efficiency in all government institutions, whether located in the Philippines or abroad [69]
- **Occupational Safety and Health Hazards Compliance Act (RA 11058)** - To strengthen compliance with Occupational Safety and Health Standards (OSH) and issue stiff penalties for violations [70]
- **Universal Health Care Act (RA11223)** - To ensure all Filipinos have equal access to high quality, affordable healthcare products and services, and are protected from financial risks [71]

Amid all these accomplishments, a different picture however is painted based on a forum which assessed the performance of the Duterte Administration. Among the points raised were:

- i) The absence of inclusive growth as those in the agriculture sector, farmers, fisherfolk, low-income earners, and urban poor communities benefited the least, even with the increase of the GDP.
- ii) The absence of decent work for many workers as they are still in low-value, low-productive, hazardous work, received poverty-level wages, and low access to social protection.
- iii) No significant improvement on poverty incidence.
- iv) Persistent problems in terms of access to quality education and quality healthcare.
- v) Heavy reliance on exports rather than on imports which resulted to increased trade gap.
- vi) With 79% of projects under the Build, Build, Build program located in Luzon, it became Luzon-centric while Visayas and Mindanao only had 7% and 14%, respectively [72].

The Duterte Administration was also popular with its war on drugs which had caught the attention of the international community. It led to the deaths of more than 12,000 Filipinos, a majority of whom were from the urban poor [73].

Nevertheless, beyond the accomplishments achieved by the two previous administrations, it is imperative that the new administration of President Ferdinand Marcos Jr. takes valuable lessons from past experiences to pave the way for a much better Philippines.

CONCLUSION

Toward a Better Quality of Life

The road ahead toward achieving social justice and decent work is undoubtedly challenging. Nevertheless, given the substantial number of informal sector workers and their ongoing struggle for a productive and better quality of life, immediate attention from all stakeholders is essential. The Philippine government, the private sector, and business operators, both small and large, among others, have significant roles to play as they have the social and legal responsibility to address the distressing plight of informal workers.

Recommendations

To help increase their employability, productivity, and opportunity to have a voice and representation in the system, job security, and social protection, the following recommendations are suggested:

- Facilitate the creation of more well-paying jobs by: (i) improving the business environment to attract more investments; (ii) upgrading value chains to support strong and sustainable growth; and (iii) strengthening backward and forward linkages to build on the comparative advantages of skilled labor and create jobs for the unskilled [74]
- Improve productivity in all sectors, especially agriculture by: (i) increasing agricultural productivity; and (ii) supporting agribusiness and broader value chain development [75]
- Ensure that Filipinos acquire the skills they need for the 21st century economy by: (i) boosting learning in basic education overall and increase secondary enrollment and completion among the poor; and (ii) developing socioemotional skills in addition to traditional technical skills and cognitive skills [74]
- Manage risks and protect the vulnerable by: (i) improving natural disaster risk management systems; and (ii) strengthening social protection systems [74]
- Increase the scope of social protection by: (i) adapting social security systems to increase the coverage of workers in nonstandard jobs by lowering thresholds on minimum hours, earnings, or duration of employment, making systems more flexible with regard to contribution requirements, allowing for interruptions in contributions, and enhancing the portability of benefits; and (ii) supplementing social security with universal policies guaranteeing a basic level of social protection [75]
- Extend collective bargaining to all employees in an industry or occupation. As unions serve as the voice of workers, being included in collective agreements will reduce job insecurity and hopefully, improve work conditions [75]
- Create new ways of organizing workers through: (i) direct recruitment of informal workers into sectoral unions; (ii) affiliation of informal associations into unions or national centers; (iii) union support to informal associations to make a transition into a new union; and (iv) development of alliances or memoranda of understanding between unions and informal associations [76]
- Adopt comprehensive policies at work. Comprehensive employment and social policies are required to support the labor market, particularly in the areas of job creation, the provision of public care services, and increasing employees' access to maternity and elder care leave as well as training and lifelong learning opportunities. These kinds of rules can aid in addressing flaws in the design of

standard occupations, giving employees more freedom to choose between standard and nonstandard work [75]

- Include in labor force surveys conducted by the PSA relevant questions on informal employment. The proxy indicators of self-employed and unpaid family workers do not capture the actual number and conditions of informal employment [77]. Accurate data is essential so that specific needs and issues of this sector are fully and appropriately addressed

Finally, the passage of the bill on the Magna Carta of Workers in the Informal Economy (MACWIE), An Act Providing for A Magna Carta for Workers, Enterprises and Organizations in the Informal Economy and Institutionalizing Mechanisms for Transitioning to Formal Economy, for Implementation Thereof and for Other Purposes, should be made a legislative priority, but to date, it has yet to be passed by Congress. This is a promising bill that has been filed on 10 July 2019 during the 18th Congress with provisions on the creation of institutional mechanisms that will ensure social protection, promotion, and fulfillment of worker's rights, and establish integrated and coherent policy on formalization of enterprises and workers, among others [78].

It is important to emphasize that not all workers need to be employed in the formal sector. However, all workers have the right to a stable, productive work with fair wages that can adequately support their families. In short, all workers deserve decent work opportunities.

CHAPTER 8

THAILAND

EXECUTIVE SUMMARY

The report commissioned by the Asian Productivity Organization (APO) was carried out with the objective to address existing productivity challenges and issues in the informal sector among APO member economies, including Thailand. The primary aim is to formulate an appropriate strategy to enhance overall productivity enhancement in the informal sector.

The study reveals that informal workers in Thailand face several limitations that hinder their productivity, such as low or inadequate compensation, and occupational and economic uncertainties. The report also highlights the findings pertaining to the social status, health status, life security, and working conditions of informal workers. According to the report, most informal workers in Thailand have their own residences and do not have to pay installments or face work-related conflict and arguments. However, only a small percentage of them have experienced work-related disputes. The majority of informal workers have normal physical health, though some may suffer from muscular issues due to their work. While they generally feel secure in their lives, there are workers who face challenges, such as late compensation, excessive working hours, and lack of welfare support from work.

To enhance the well-being of informal workers in Thailand, the report provides several policy recommendations. These include: (i) scaling up opportunities for stable income and career growth; (ii) making standardized learning and skill development accessible to all; (iii) supporting informal workers in transitioning to formal employment as needed; (iv) developing sustainable social protection, savings systems, and community welfare; (v) promoting vocational and community college education to increase the number of skilled workers; (vi) ensuring workers be entitled to benefits under labor law and the enforcement of labor laws should be regulated, monitored, and assisted; (vii) promoting informal workers' career development and income; (viii) providing financial support to different occupations and professional associations; (ix) implementing measures to increase sufficient income; (x) supporting agriculture by reducing production costs and stabilizing the price of agricultural products; (xi) encouraging additional career opportunities and making funding sources more accessible; (xii) getting informal workers to recognize the importance of voluntary self-development in their second language proficiency or digital communication; (xiii) educating informal workers on the benefits of saving; (xiv) improving the quality of life of informal workers and protecting their rights through the law; and (xv) creating a platform or application to develop an informal worker network that allows them to register both online and on-site.

In conclusion, the report provides valuable insights into the challenges and issues faced by informal workers in Thailand. The policy recommendations provided in the report offer a comprehensive strategy to enhance the well-being of informal workers, promote their career growth and income, and ultimately, improve their quality of life.

INTRODUCTION

Significance of the Informal Sector in Thailand

Labor is the main driver of productivity as human capital is crucial for economic development at both the micro and macro levels of the country. However, for Thai's labor force to achieve a higher level of efficiency and productivity, it requires adequate knowledge, skills, and potential. The informal sector plays a significant role in most developing countries, particularly in Thailand. According to the national survey conducted by the National Statistic Office of Thailand between 2017–21, the majority of the country's workforce is engaged in the informal sector, as shown in Table 8.1. By the year 2021, the total number of workers reached 37.7 million with more than half of them being informal labor (51.98%) while 48.01% is formal labor [1]. The results of this survey indicate that most informal labor lacks the protection of the Labor Protection Act B.E. 2541 (1998 C.E.) and without social security coverage, resulting in a lower quality of life and a potential impact of their productivity.

TABLE 8.1

EMPLOYMENT IN LABOR SYSTEM AND INFORMAL SECTORS BY GENDER IN 2017–22

Workers	Year (Number of people in units of million)				
	2017	2018	2019	2020	2021
Total	37.7	38.3	37.5	37.9	37.7
Male	20.5	20.9	20.5	20.5	20.5
Female	17.2	17.4	17.0	17.3	17.2
Formal Labor	16.9	17.1	17.1	17.5	18.1
Male	9.0	9.1	9.1	9.3	9.7
Female	7.9	8.0	8.0	8.2	8.4
Informal Labor	20.8	21.2	20.4	20.4	19.6
Male	11.5	11.7	11.4	11.2	10.8
Female	9.3	9.5	9.2	9.2	8.8

Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

Data from the 2021 survey conducted across the country reveals that 37.7 million people are employed, of which, 18.1 million are formal workers and 19.6 million are informal workers. Comparing the number of workers in both the formal and informal sectors over the past five years, there hasn't been a significant difference each year (37.5%–38.3%). While the number of workers in the formal sector is increasing every year with a higher proportion of males, the number of informal workers has shown a decline. Similar to the formal sector, the informal sector also has a higher percentage of males compared to females. Informal labor is a common issue in developing countries, including Thailand, which has a large number of informal workers. According to the 2021 projections from the National Statistical Office, about 19.6 million people that account for 51.98% of the workforce, are employed in an unofficial or unregistered capacity without the benefit of social security. Informal workers make up a sizable component of the labor force, which may have a negative impact on the nation's social and economic development. This is partly due to income inequality and the limited potential to increase labor productivity.

Characteristics of Informal Workers in Thailand

Based on data from Korwatanasakul's (2021) survey of the working population in the year 2020, it was discovered that there was a statistical correlation between the likelihood of being informal workers and certain characteristics or variables of the workers, such as gender, age, work experience, marital status,

residential area, education level, working hours per week, and types of wages. For instance, employees who are older, inexperienced, and unmarried tend to have a higher chance of being informal workers [2]. On the other hand, having a high level of education, living in an urban area, and being the head of the household reduce the likelihood of working informally. Other studies from de Vreyer and Roubaud (2013), García (2017), Marcouiller, Ruiz de Castilla, and Woodruff (1997) cited in Korwatanasakul (2022) found that certain independent variables, such as weekly hours worked and monthly salaries, were negatively correlated with trends in informal workers. This suggests that employees with longer workweeks and those who receive monthly wages had a lower likelihood of being in this category.

Understanding the characteristics of informal workers will better equip policymakers to pinpoint and immediately address labor concerns, identify labor issues faced by informal employees, and resolve those problems directly. Informal workers, for example, tend to have relatively short working hours and are paid on an hourly or daily basis without a formal contract. Furthermore, informal workers also have the tendency to receive low and unstable incomes that result in insufficient savings. These characteristics make informal workers vulnerable and increase their susceptibility, particularly during economic downturns. During the crisis of the COVID-19 pandemic, informal workers were among the first to be laid off. One of the important solutions is to enable informal workers to access the social security system by encouraging, assisting, or motivating them to transition to the formal sector or encourage them to enroll in Section 41, which is voluntary social security provision. Moreover, the majority of informal workers live in rural areas, where there are fewer opportunities for higher education and formal jobs. Therefore, it is imperative to introduce suitable policies that promote job opportunities in rural regions. For instance, incentive programs can be initiated to encourage businesses to establish branches and factories outside of urban areas, which could potentially mitigate accessibility problems.

Objective of Study

This study proposes to analyze the existing productivity challenges and issues in the informal sector in APO member economies, including Thailand. The aim is to formulate an appropriate strategy for overall productivity enhancement in the informal sector. The study also seeks to conduct an in-depth analysis of informal sector strategies for generating productivity growth, especially as part of post-pandemic economic revival.

Key Findings

The paper is organized into the following sections:

- Informal sector productivity diagnosis and mapping transitioning from the informal to the formal sector
- Measurement of informal sector productivity
- Policy interventions and support for the informal sector
- Inclusive productivity

Definition

The definition of the informal sector was established for the first time in 1993 during the International Conference of Labor Statisticians (ICLS). It refers to labor who is self-employed or an employee of enterprises classified in the informal economy, a worker who is employed under their own family business, a worker who works as an entrepreneur in the informal sector, or a worker who works as a household worker, and these workers are not protected by social security. In Thailand, the definition of the informal sector had been determined by several organizations, covering various types of labor,

depending on the mission of each agency that defines the term. Thailand's Minister of Labor defines that the informal sector labor refers to employed persons who are not protected by the Labor Protection Act B.E. 2541 (1998 C.E.) and the Social Security Act B.E. 2533 (1990 C.E.) (an employee with an employer).

- i) **Workers** are defined as employed persons aged 15 years and above.
- ii) **Not protected by labor protection laws or social security laws** is refers to laborers who are not protected under the Labor Protection Act B.E. 2541 (1998 C.E.) and its amendments as well as the Social Security Act B.E. 2533 (1990 C.E.).
- iii) **Formal sector labor** is defined as employed persons who are protected under the Labor Protection Act B.E. 2541 (1998 C.E.) and its amendments as well as the law of Social Security Act B.E. 2533 (1990 C.E.).
- iv) **An employer** is defined as a person who operates his own enterprise for profit or dividends and hires one or more employees in enterprise.

The Ministry of Labor's approach to the informal sector framework focuses more on providing social security rather than facilitating the transition of informal workers into formal sector employment. This approach stems from the ministry perspective in valuing people's right to choose a career. As a result, the focus is primarily on providing informal workers with more social security as it is recognized that many of them may lack the necessary qualifications or skills required to transition into formal sector employment. Additionally, there may not be sufficient or limited formal sector jobs available to accommodate all informal workers. Hence, social security measures can provide them with the necessary financial and social protection, ensuring that they have access to basic necessities, such as healthcare, education, and upskill-reskill assistance. By addressing these needs, it can also help reduce poverty levels and promote social inclusion among informal workers, ultimately contributing to the overall economic development of a country.

LITERATURE REVIEW

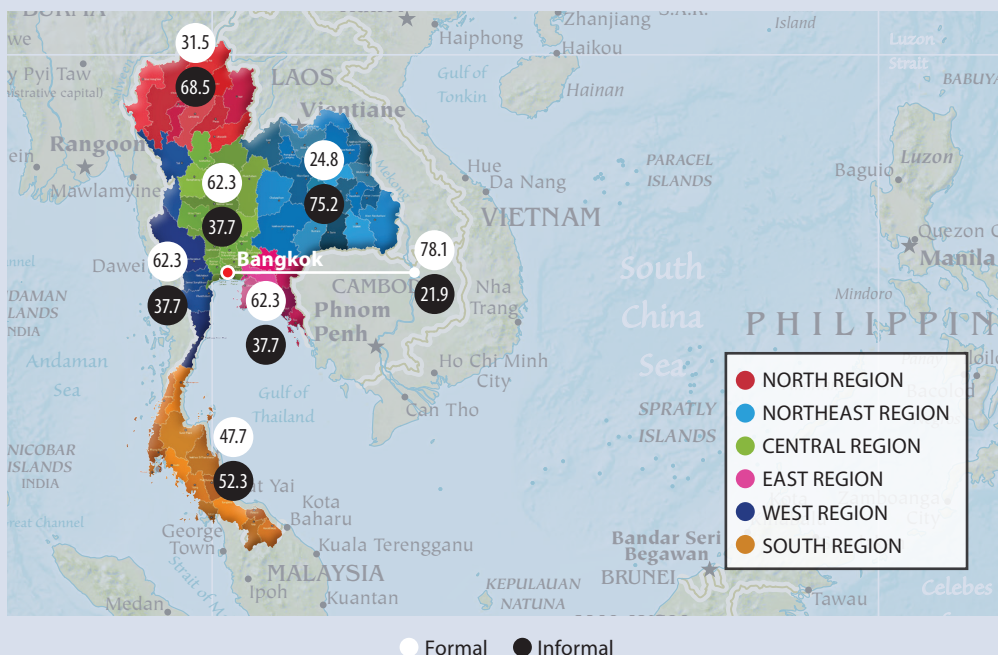
Thailand's Informal Sector

In comparing the number of informal and formal sector workers by region, it is found that the north, northeast, and southern regions have a higher proportion of informal employment than formal employment. More specifically:

- The northeast region consists of 75.2% informal sector workers and 24.8% formal sector workers [3]
- The northern region has 68.5% informal sector workers and 30.7% formal sector workers [3]
- The southern region sees 52.3% informal sector workers and 43.8% formal sector workers [3]
- In Bangkok, the central, west, and east regions have higher numbers of workers in the formal sector than the informal sector. The breakdown is Bangkok has 78.1% of its workers in the formal sector and 21.9% in the informal sector. The central, west, and east have 62.3% in the formal sector and 37.7% in the informal sector [3]

FIGURE 8.1

PERCENTAGE OF FORMAL AND INFORMAL SECTORS BY REGION IN 2021



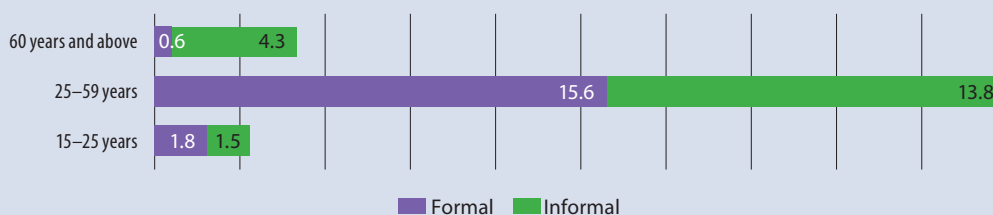
Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

The comparative data in Figure 8.1 reveals that the northeastern, northern, and southern regions have a higher number of informal workers than other regions. Relevant organizations must expedite efforts to assist informal employment, providing access to welfare and various protections in improving their quality of life.

When examining the age characteristics of Thailand's informal sector, the 25–59 age group displays the highest rate of labor force participation. In 2021, the number had grown to 13.8 million people. The second age group pertains to individuals aged 60 and above, who are still capable of working, with a total of 4.3 million people. On the other hand, young individuals aged 15–24 years represent the smallest number of informal sector workers with only 1.5 million people [4].

FIGURE 8.2

NUMBER OF FORMAL AND INFORMAL SECTORS CLASSIFIED BY AGE GROUP IN 2021



Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

Note: Number of people in unit of million.

Regarding the education level of the informal sector, the majority comprise individuals who have only completed primary school or lower, accounting for 5.7 million people or 28.9% in 2021. Nevertheless, this figure has declined compared to 2020 with an increasing proportion of individuals who have completed primary education, junior high school, high school, and higher education, as presented in Figure 8.3.

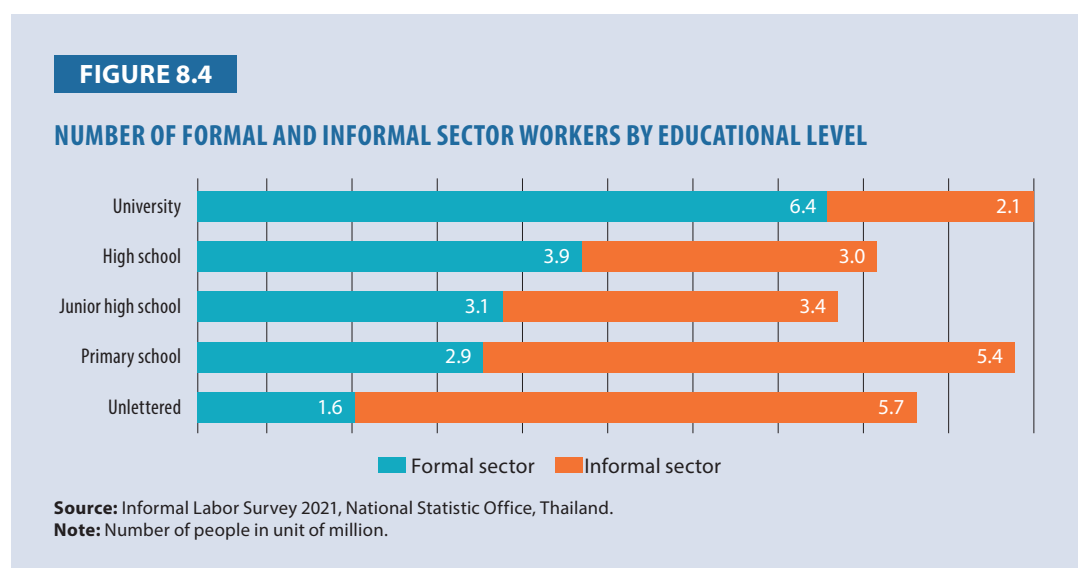


Figure 8.4 illustrates the breakdown of formal and informal sector workers based on educational level. The majority of informal workers are unlettered, totaling 5.7 million. This is followed by 5.4 million with primary education and 3.4 million with junior secondary education in the informal sector. In contrast, the majority of formal sector employees hold a bachelor's degree, totaling 6.4 million [4].

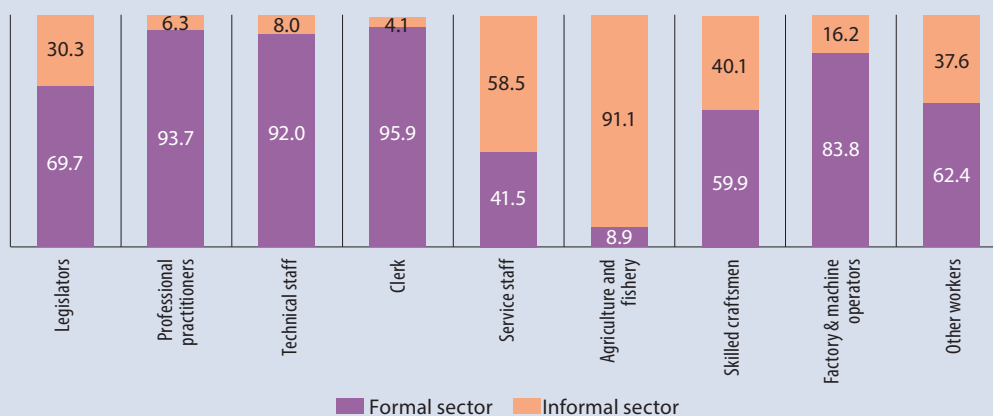
Occupation of Informal Workers

Data from Figure 8.5 provides information on the occupations of the informal sector workers compared to formal sector workers. The majority of informal workers (91.1%) are skilled workers in agriculture and fishery, followed by employees in the services sector (58.5%), and skilled craftsmen and related workers (40.1%). In contrast, clerks, professional practitioners, technical staff, related professionals in various

fields, factory machine operators, and assembly workers are more likely to be employed in the formal sector rather than the informal sector [4].

FIGURE 8.5

PERCENTAGE OF FORMAL AND INFORMAL SECTOR WORKERS BY OCCUPATION BY 2021



Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

TABLE 8.2

NUMBER OF FORMAL AND INFORMAL SECTOR WORKERS BY OCCUPATION IN 2021

Career	Formal Sector (No. of people in million)	Informal Sector (No. of people in million)
Managers, senior civil servants, and legislators	0.8	0.4
Professional practitioners	1.9	0.1
Technical staff and professionals involved in various fields	1.5	0.1
Clerk	1.7	0.1
Service staff and merchants	3.1	4.4
Agriculturist, forestry, and fisheries workers	1.1	10.8
Skilled craftsmen and related workers	2.4	1.6
Factory and machinery operator	3.1	0.6
Other workers	2.5	1.5
Total	18.1	19.6

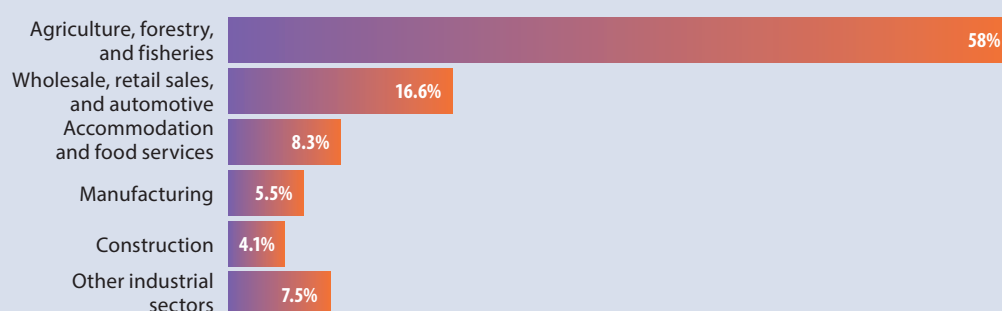
Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

In categorizing the number of both formal and informal workers by occupation (Table 8.2), it was found that most of the formal workers were service staff and merchants, factory operators, and operators, totalling 3.1 million. This is followed by other workers at 2.5 million and skilled craftsmen and related workers at 2.4 million.

In contrast, for informal employment, the majority are working in the agriculture, forestry, and fishery sector, reaching up to 10.8 million by the year 2021. Following this is the service staff and merchants at 4.4 million while the last group is the skilled craftsmen and related workers at 1.6 million.

FIGURE 8.6

PERCENTAGE OF INFORMAL SECTORS BY MAJOR INDUSTRIES



Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

As indicated in the 2021 informal labor survey data, the majority of workers in the informal sector are employed in agriculture, forestry, and fisheries at 58%, followed by the wholesale, retail sales, and automotive repair sector at around 16.6%. These two sectors dominate collectively at 74.6%. Thus only 8.3% of informal employment fall in the accommodation and food services sector, 5.5% in the manufacturing sector, 4.1% in construction, and the rest are scattered in other industrial sectors at 7.5%.

TABLE 8.3

NUMBER OF FORMAL AND INFORMAL SECTORS BY WORKING HOURS IN 2021

Type of Worker in 2021	Working Hours Per Week	
	Normal Working Hours (42.6 hours/week)	Below Normal Working Hours (38.1 hours/week)
Formal sectors (Total = 18.1 million)	17,818,614 persons 98.45%	281,386 persons 1.55%
Informal sectors (Total = 19.6 million)	14,632,275 persons 97.47%	496,725 persons 2.53%

Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

TABLE 8.4

WAGES AND SALARIES IN FORMAL AND INFORMAL SECTORS

Economic Activity	Formal Sector (THB/month)	Informal Sector (THB/month)
Agriculture	6,285 (USD179.57)	5,428 (USD155.08)
Manufacturing sector	13,470 (USD384.85)	7,560 (USD216.00)
Trade and services sector	17,048 (USD487.08)	7,400 (USD211.42)
Average wage and salaries	15,154 (USD432.97)	6,853 (USD195.80)

Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

Note: Currency exchange at current rate: USD1=THB35.

The data presented in Table 8.3 indicates that less informal sector workers tend to work under normal working hours than their formal sector counterparts. This suggests that informal workers may not be able to fully utilize their skills and abilities and may need to work additional hours to make ends meet. Table 8.4 presents the disparity in wages and salaries between the formal and informal sectors.

Based on all the information from the wage and salary survey in 2021, data is collected only from persons who have working status that includes both private- and public-sector employees. Data was also collected in accordance to the types of wages received hourly, daily, weekly, and monthly, and then, converted to monthly amount.

The survey results found that the highest wage earners in the informal sector are employees in the manufacturing sector at THB7,560 (USD216), followed by trade and services sector at THB7,400 (USD211.42), and the agriculture at THB5,428 (USD155.08). The average wage and salary is THB6,853 (USD195.80) [4].

In comparison, the wage and salary per month of both the formal and informal sectors show significant differences. The average wage and salary of the formal sector is higher than the informal sector by 2.2 times by the year 2021.

Issues and Challenges in the Informal Sector

TABLE 8.5

PERCENTAGE OF INFORMAL SECTOR'S CHALLENGES IN 2021

Main Areas		
Workplace Challenges	Unsuitable Work Conditions	Unsafe Environment
Wage and salary 48.2%	Ergonomic hazard 42.7%	Exposure to toxic chemicals 58 %
Irregular work 23.7%	Dusty, smoky, odorous 25.6%	Dangerous machinery/ tools 16.8%
Arduous labor 14.3 %	-	Auditory/visual strain 5%

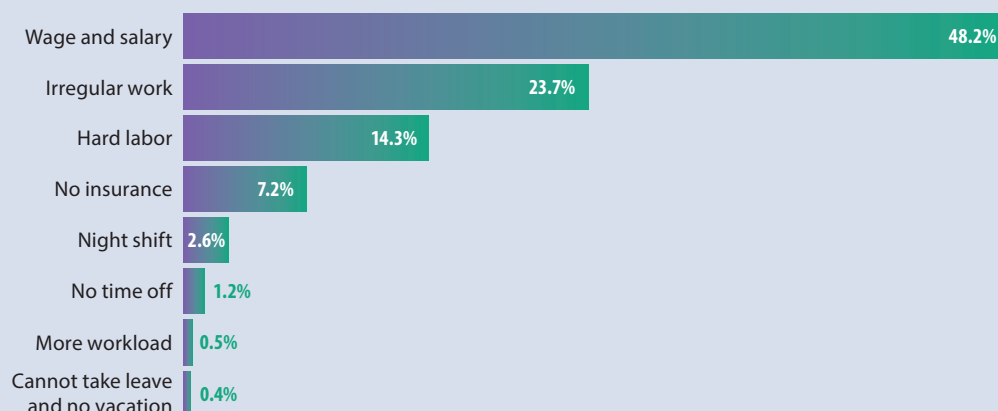
Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

The concerns of 19.6 million informal workers in Thailand, which have garnered the attention of various organizations, can be classified into three main areas: (i) workplace challenges (totaling 69.1%), (ii) unsuitable work conditions (totaling 41.1%), and (iii) unsafe environment (totaling 34.5%) [4]. The findings indicate that 6.2 million employees, which account for 31.8% of the entire informal sector, are experiencing problems. It is worth noting that an informal worker may face issues in multiple areas simultaneously.

i) Workplace challenges

In the informal job sector, a significant portion of jobs is characterized by meager wages, accounting for up to 58% of cases, followed by irregular employment at 23.7%, and arduous labor at 14.3%, among other issues. These are the persistent challenges for informal workers as they encounter comparable difficulties.

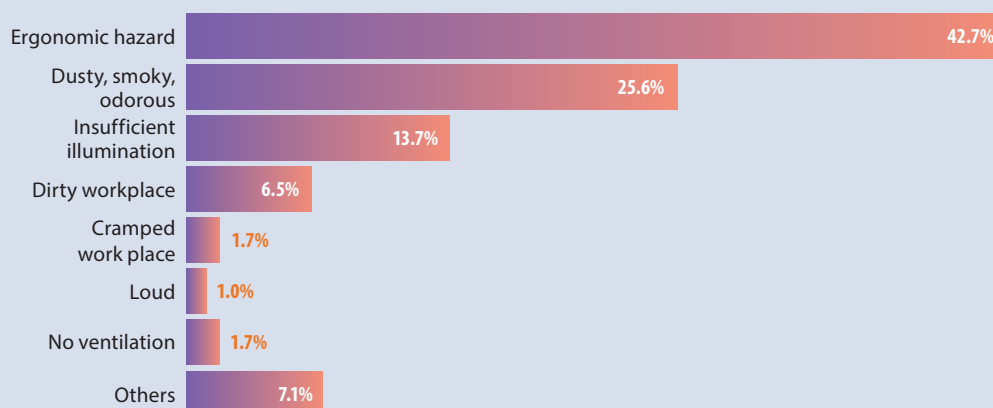
The primary challenges encountered by informal workers in the workplace are predominantly due to unjust wages, accounting for 48.2% of cases. This is followed by irregular work at 23.7% and hard labor at 14.3%.

FIGURE 8.7**PERCENTAGE OF INFORMAL SECTORS' WORK ISSUES IN 2021**

Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

ii) Unsuitable working conditions

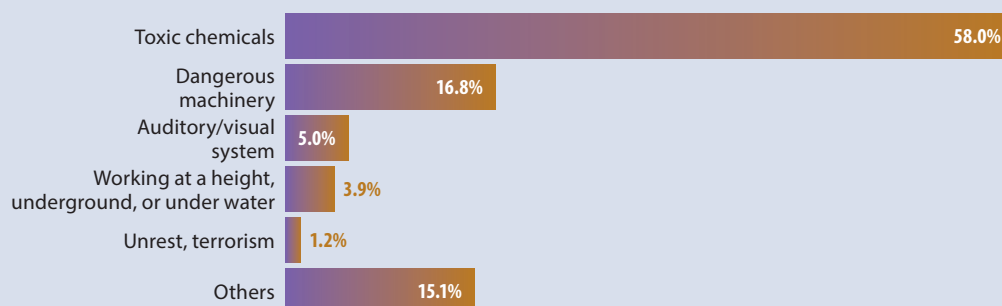
Informal workers face ergonomic hazards due to inappropriate work postures/positions in unsuitable working conditions (42.7%), followed by exposure to dust, smoke, and odors (25.6%), and inadequate lighting (13.7%) [4].

FIGURE 8.8**PERCENTAGE OF INFORMAL SECTOR'S UNSUITABLE WORKING CONDITIONS IN 2021**

Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

iii) Unsafe environment

Regarding the matter of unsafe work, it was discovered that the highest proportion of informal workers were subjected to toxic chemicals (58%), followed by hazardous machinery and equipment (16.8%). An additional 5% is attributed to auditory/visual impairments and other factors, such as working at heights/underwater/underground, civil unrest, terrorism, and so on.

FIGURE 8.9**PERCENTAGE OF INFORMAL SECTORS' UNSAFE WORKING ENVIRONMENT IN 2021**

Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

RESEARCH METHODOLOGY

This segment outlines the research methodology utilized in the study, including data collection methods, research measurements and tools, sample selection, data analysis, and potential limitations of the research project. Specifically, the national survey was conducted to collect data through the Ministry of Labor system, analyzing the quality of life starting from August to December 2022.

Research Method

Cross-sectional surveys were used as a method of gathering data by asking questions and recording information from informal laborers in the informal worker database. The survey was conducted effectively from March to November 2022 and was divided into six parts:

Part 1: General information

Part 2: Information related to the quality of life of the informal worker

Part 3: Work protection and social security

Part 4: Information about informal labor skill, readiness, and potential to work

Part 5: Labor problems

Part 6: Government assistance

Research Measurement and Tool

A questionnaire was distributed to a sample of 78,750 informal laborers through the provincial employment office across the country, covering 76 provinces. The research is exploratory in nature, using a previously tested and validated questionnaire developed by Thammasart University and the Ministry of Labor. The questionnaire consisted of various parts: the first part consisting of general information, the second part assessed the quality of life of informal workers, encompassing factors, such as socioeconomic status, social standing, health status, life security, environment, work-related

issues, and other relevant variables. The third part pertained to work protection and social security. The fourth segment of the questionnaire employed a Likert scale with four statements and six choices to gather information about the skills, readiness, and potential of informal workers. The fifth and final section addressed labor issues and government assistance, with participants indicating their level of agreement with each characteristic.

Sample Selection

Informal workers across the country were the target population of this study. Purposive sampling technique was employed in this study with a focus on ensuring representation from all provinces across the country for maximum coverage. A total of 78,750 participants, who were employed by the provincial labor office across 76 provinces in Thailand, completed the questionnaire.

Data Analysis

The data analysis was divided into four sections as follows:

- Results of the informal sector consist of general information questions
- Occupational analysis with welfare and income factors that are sufficient to cover expenses
- Quality of life analysis, consisting of eight components: (i) socioeconomic, (ii) social status, (iii) health status, (iv) life security, (v) environment, (vi) work problems, (vii) formal labor skill-readiness, and (viii) their potential to work, and others.
- Measurement of productivity product

Research Limitations

The majority of informal workers have limited education, which leads to a lengthy questionnaire completion process. Many participants did not fully comprehend the purpose of the study, its significance, and benefits despite the efforts of the researchers to provide explanations. However, the participants were still uncooperative, resulting in a significant amount of time being spent on completing the 78,750 questionnaires.

Another constraint was the difficulty in collaborating with local organizations to conduct surveys in certain areas. This was due to the lack of trust among informal workers in providing accurate information, which adversely affected the computation of weights and indices.

RESULTS AND DATA ANALYSIS

This segment presents the research findings on data collected from the case study samples, primarily through interviews. The findings will be presented in relation to the research objectives stated in the study, divided into four parts.

Informal Sector Productivity Diagnosis and Mapping Transitioning from Informal to Formal

The data collected through the national survey regarding the quality of life of informal sector workers will be presented as a diagnosis of their productivity.

Survey Results of Informal Workers

Out of the total number of 78,750 informal workers surveyed, 55.44% were female with 66.31% of them being married. The majority, 74.94% were between the ages of 20 and 59. About 44.98% of all informal workers completed primary school. Table 8.6 shows that the most common occupations are farmers/freshwater fishermen (21.48%), followed by a general employment (19.80%).

TABLE 8.6

GENERAL INFORMATION ON INFORMAL WORKER

General Information	Percentage (%)
Gender	
Female	55.44
Male	44.56
Marital status	
Single	27.58
Married	66.13
Widowed, divorced, separated	6.29
Occupation	
Unemployed	15.03
Homework	1.05
Home worker	1.02
Coolie	19.80
Farmer	2.99
Fisherman	0.95
Farmer/freshwater fisherman	21.48
Merchant/peddler	6.19
Driver	5.07
Employer	6.50
Antiquary	0.44
Freelance	3.36
Services	1.38
Family business	2.45
Workman	9.78
Others	2.51

Source: Informal Labor Survey 2021, National Statistic Office, Thailand.

FIGURE 8.10

AGE RANGE OF INFORMAL WORKERS

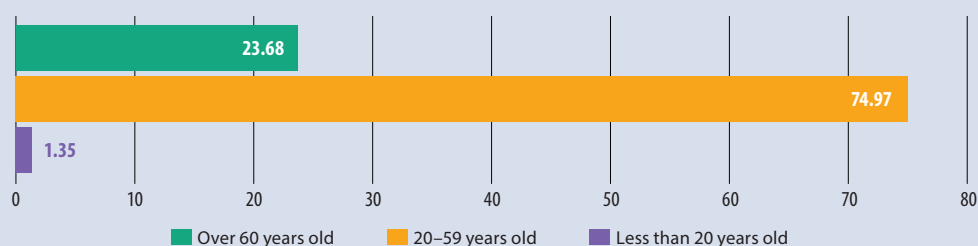
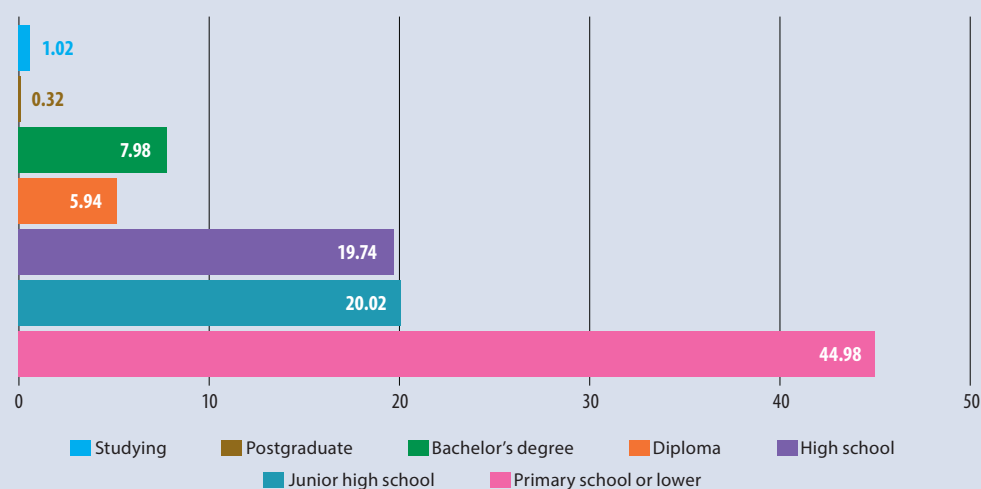


FIGURE 8.11

EDUCATION LEVEL OF INFORMAL WORKERS



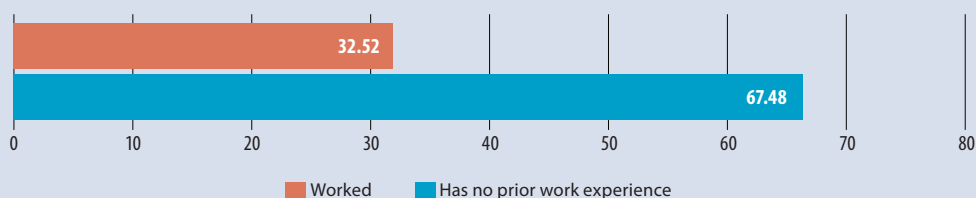
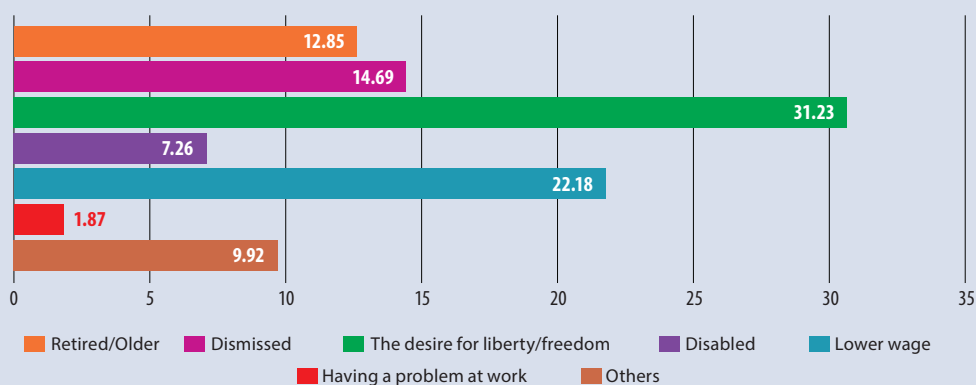
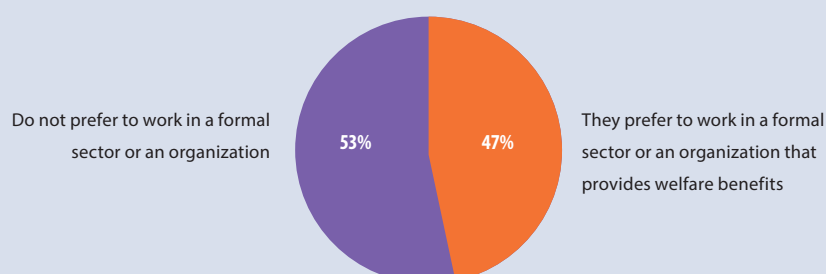
The majority (90.48%) have only a single primary occupation and 67.48% have never worked before. Among those who have previously worked in the informal sector are former factory employees, accounting for 38.64%. The main reasons for changing employment are a desire for independence (31.23%), followed by inadequate pay or income (22.18%).

TABLE 8.7

GENERAL INFORMATION ON OCCUPATIONS OF INFORMAL WORKERS

Occupation Information	Percentage (%)
Single primary occupation	90.48
Additional occupation	9.52
Have they had any previous work experience before starting their current job?	
Has no prior work experience	67.48
Worked	32.52
- Government official	1.78
- State enterprise employee	3.04
- Private officer	34.44
- Former factory employees	38.64
- Others	22.11
What is their current job position?	
Employer	4.73
Employee	46.42
Employees work with multiple employers	5.51
Bunding	1.85
Running a private company without any employee	27.00
Without a salary or income, assist family companies	5.46
Others	9.02

Regarding the demand for workers in the formal sector or organizations with a welfare system, 53.32% of respondents did not have a need to work in the formal sector with the majority of them being employees (46.42%), followed by self-employed without employees (27%).

FIGURE 8.12**INFORMAL WORKERS' JOB EXPERIENCE BEFORE CURRENT JOB****FIGURE 8.13****INFORMAL WORKERS' REASONS FOR CHANGING JOBS****FIGURE 8.14****MOTIVATION TO WORK IN INFORMAL SECTOR**

Quality of Life of Informal Workers

The quality of life for informal workers is influenced by various motivations, including economic factors, social status, health status, life security on the job, environmental conditions, working conditions, and readiness and potential to work. These factors shape their pursuit of a better quality of life while engaging in informal work.

i) Economic factors

According to an economic survey of informal workers, they earn an average of THB9,595.41 (USD274.15) per month with 49.62% earning less than THB9,000 per month (USD257.14). About 26.51% of them have responsibilities or share expenses with up to three persons. Further, more than half of the surveyed population had insufficient income to cover their expenses (63.76%) and 52.14% were in debt and were borrowing within the system (87.16%).

TABLE 8.8

QUALITY OF LIFE FOR INFORMAL WORKERS - ECONOMIC FACTORS

Income Breakdown	Percentage (%)
The average income per month	THB9,595.41/month (USD274.15)
Less than THB9,000/month (USD257.14)	49.62
THB9,000–THB15,000/month (USD257.14–USD428.57)	36.40
More than THB15,000/month (USD428.57)	13.99
Number of people co-spending from income	
1 person	24.17
2 persons	25.66
3 persons	26.51
More than 4 persons	23.67
Is average gross income sufficient for expenses?	
Average gross income is sufficient for expenses	36.24
Average gross income is not sufficient for expenses	63.76
Do they have any debt?	
No debt	47.86
Have debt	52.14
- Borrowing from the financial system	87.16
- Borrowing from loan shark	12.84

Informal workers' survey on data of income from work showed an average income of THB9,595.4 per month (USD274.15). Among this group, 37.31% received daily income while most of them (56.92%) stated that the income they earned from their work was worthwhile. At the same time, almost half of them replied earnings from work were not worth it (43.08%) due to their low income and lack of profits. When questioned about setting objectives for success at work, it was found that most of them did not set goals (83.90%). Only 16.10% set goals and most of the people who set goals achieved successful outcomes.

FIGURE 8.15

AVERAGE GROSS INCOME COVERAGE FOR EXPENSES

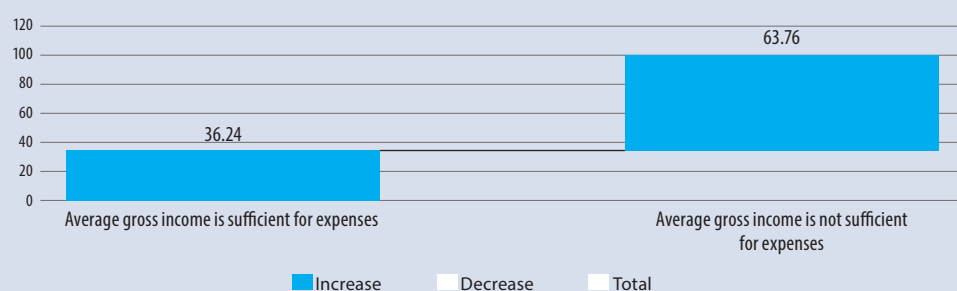


FIGURE 8.16

PERCENTAGE OF INFORMAL WORKERS WITH DEBT

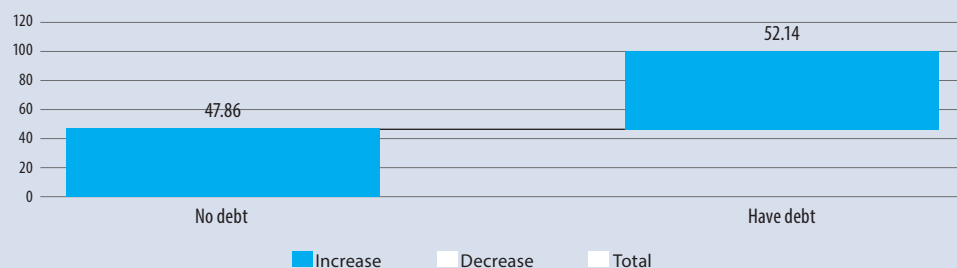


TABLE 8.9

TYPES OF WAGES AND SALARIES FOR INFORMAL WORKERS

Type of Work that Informal Workers Get Paid Form Data	Percentage (%)
The average income from only one occupation per month	THB9,507.46/month (USD271.64)
The type of work that informal workers get paid for	
Wage per hour	1.61
Wage per day	37.31
Wage per week	2.82
Wage or salary per month	30.11
Wage or salary per time	23.82
Others	4.33
What are daily goals and accomplishments?	
Did not set goals	83.90
Set goals and work toward them	16.10
Set goals and work toward them until successful	74.76
Set goals and worked toward them but failed	25.24

FIGURE 8.17

GOAL SETTERS VS. NONGOAL SETTERS AMONG INFORMAL WORKER

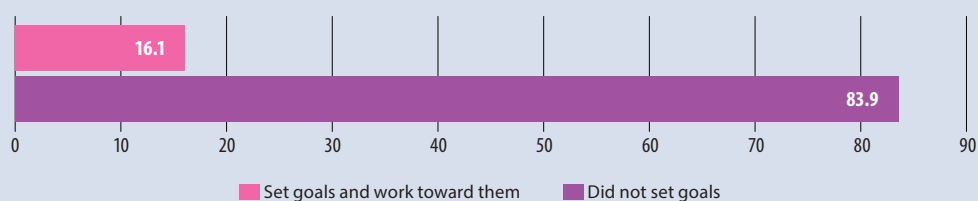


FIGURE 8.18

GOAL SETTING FOR CURRENT JOB

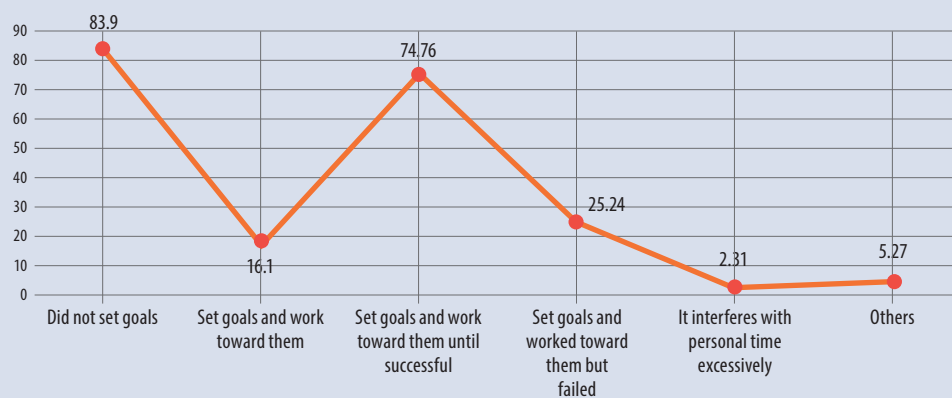


FIGURE 8.19

TYPES OF WAGES AND SALARIES IN THE INFORMAL SECTOR

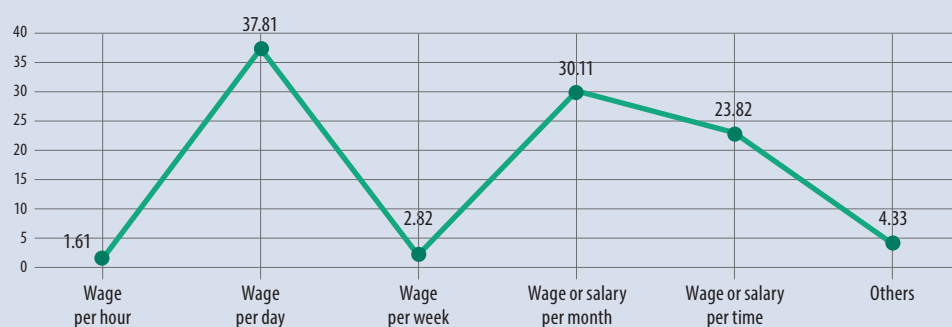


FIGURE 8.20

SATISFACTION WITH INCOME AND EFFORT

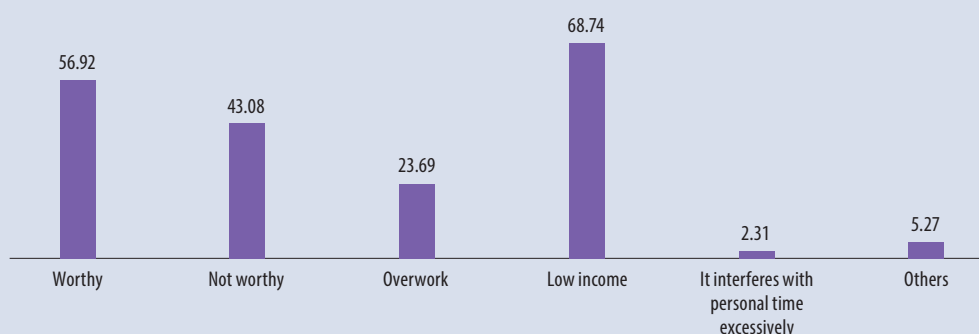


TABLE 8.10

AVERAGE WAGES IN FORMAL AND INFORMAL SECTORS IN 2022

Economic Activity	Formal Sector (THB/month)			Informal Sector (THB/month)		
	Total	Male	Female	Total	Male	Female
Agriculture	6,895 (USD197)	7,387 (USD211.05)	6,058 (USD201.93)	6,053 (USD172.94)	6,170 (USD176.28)	5,843 (USD166.94)
Manufacturing	14,385 (USD411)	15,001 (USD428.60)	13,486 (USD449.53)	8,033 (USD229.51)	8,386 (USD239.60)	6,610 (USD188.85)
Trade and services	17,310 (USD494.57)	17,333 (USD495.22)	17,289 (USD576.30)	8,150 (USD232.85)	8,136 (USD232.45)	8,170 (USD223.42)
Average wages and salaries	15,797 (USD451.34)	15,845 (USD452.71)	15,744 (USD524.80)	7,539 (USD215.40)	7,705 (USD220.14)	7,210 (USD206.00)

Source: Informal Labor Survey 2022, National Statistic Office, Thailand.

Note: Currency exchange at current rate: USD1=THB35.

Wages or salaries of both formal and informal sectors consist of wages received on an hourly, daily, weekly, or monthly basis and are calculated as the average monthly wage or salary. As shown in Table 8.10, employees in the informal sector earn an average monthly wage of THB7,539 (USD215.40). Informal workers in the trade and service sector earn the highest average wage of THB8,150 (USD232.85), based on economic activity, followed closely by the manufacturing sector with an average salary of THB8,033 (USD229.51). The agricultural sector received the lowest average wage of THB6,053 (USD172.94). Further, all data from Table 8.10 revealed gender inequality with males were paid more than females in both sectors.

In comparison, the average monthly wages or salaries between the two sector workers showed that workers in the formal sector received an average wage 2.1 times higher than those in the informal sector. The information in Table 8.10 indicated that the formal sector received an average wage of THB15,797 (USD451.34) per month, whereas informal workers earned an average wage or salary of only THB7,539 (USD215.40) per month. As a result, it was determined that the average monthly compensation or salary of informal employees was lower than that of formal sector workers across all activities.

TABLE 8.11

DISPARITY IN WAGES AND SALARIES BETWEEN TWO SECTORS AND GENDER PROJECTED FOR 2022 (THB AND USD)

Economic Activity	Male		Difference between Two Sectors (THB/month)	Female		Difference between Two Sectors (THB/month)
	Formal Sector (THB/month)	Informal Sector (THB/month)		Formal Sector (THB/month)	Informal Sector (THB/month)	
Agriculture	7,387 (USD211.05)	6,170 (USD176.28)	1,217 (USD34.77)	6,058 (USD201.93)	5,843 (USD166.94)	215 (USD34.99)
Manufacturing	15,001 (USD428.60)	8,386 (USD239.60)	6,615 (USD189.00)	13,486 (USD449.53)	6,610 (USD188.85)	6,876 (USD260.68)
Trade and services sector	17,333 (USD495.22)	8,136 (USD232.45)	9,197 (USD262.77)	17,289 (USD576.30)	8,170 (USD223.42)	9,119 (USD352.80)
Average wages and salaries	15,845 (USD452.71)	7,705 (USD220.14)	8,140 (USD232.57)	15,744 (USD524.80)	7,210 (USD206.00)	8,534 (USD318.80)

Source: Informal Labor Survey 2022, National Statistic Office, Thailand.

Note: Currency exchange at current rate: USD1=THB35.

FIGURE 8.21

DISPARITY IN WAGES BETWEEN SECTORS AND GENDERS PROJECTED FOR 2022 (IN USD)

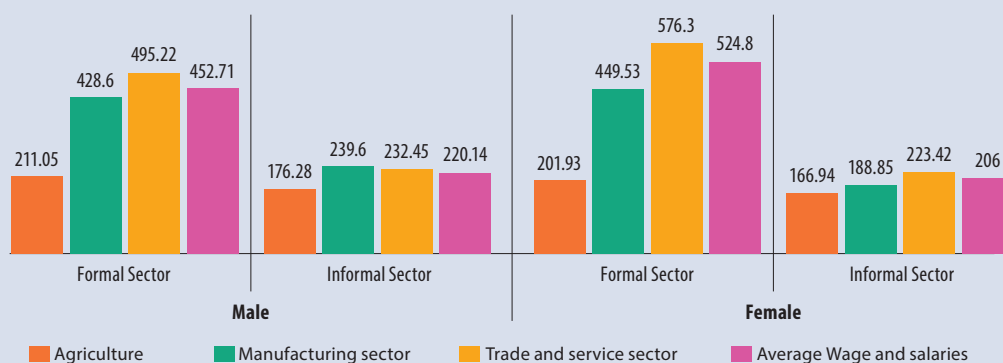


Table 8.11 illustrates the expected wage or salary gap between the formal and informal sectors in 2022. The trade and services industry is projected to have a more significant difference in pay compared to the agriculture and manufacturing sectors for both genders. It can be said that employees in the formal sector earned an average salary that was 2.1 times greater than their counterparts in the informal sector. The wage or salary gap between men and women was relatively similar in the manufacturing and trade and service sectors but the agriculture sector showed a notable difference of 5.6 times.

ii) Social status

The surveyed data in Table 8.12 highlights the social status of informal workers, showing that most have their own residences and do not have to pay installments (67.83%), followed by 18.3% of workers living with their relatives, and most of them do not have conflicts and arguments (97.62%). Only 2.38% reported work-related disputes.

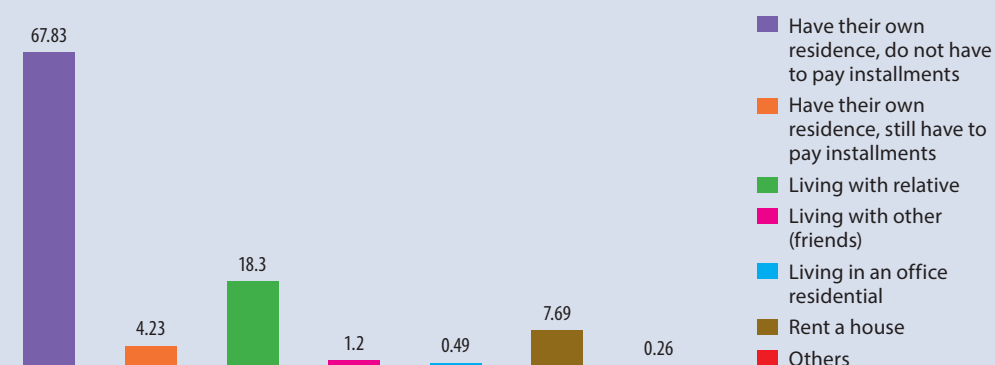
TABLE 8.12

QUALITY OF LIFE FOR INFORMAL WORKERS - SOCIAL STATUS

Social Status Information	Percentage (%)
Living status	
Have their own residence, do not have to pay installments	67.83
Have their own residence, still have to pay installments	4.23
Living with relative	18.30
Living with other (friends)	1.20
Living in an office residential	0.49
Rent a house	7.69
Others	0.26
Did they encounter any difficulties, disputes, or conflicts in the office?	
None	97.62
Yes, it has some problems, quarrels, or conflicts in the office	2.38
- Problem with work	57.10
- Personal Problem	37.59
- Others	5.31

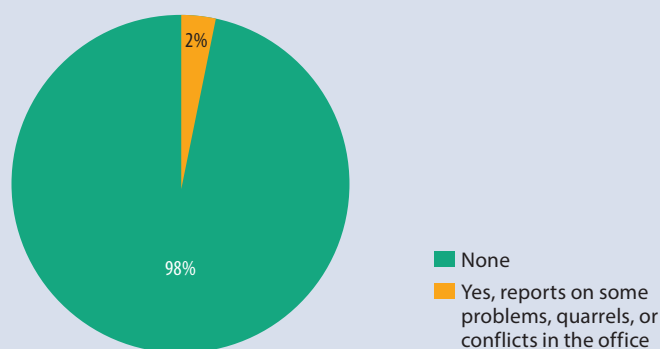
FIGURE 8.22

SNAPSHOT OF INFORMAL WORKERS' LIVING STATUS



iii) Health status

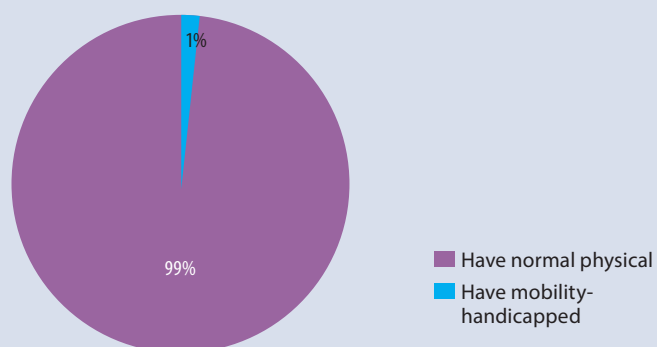
Most of informal workers (99%) have normal physical health with only 1% reporting a disability. Among the informal workers with disabilities, 51.48% have mobility impairments. Also, most of the individuals with mobility impairments do not have a disability identification card (63.09%). Besides, the finding from this study, as shown in Table 8.13, revealed that the majority of informal workers (92.67%) do not have any underlying diseases. Nonetheless, they still experience some health problems as a result of their jobs (15.87%) with 80.04% suffering from muscular issues due to their work as well.

FIGURE 8.23**OVERALL PERCENTAGE OF WORK ISSUES REPORTED BY INFORMAL WORKERS****TABLE 8.13****QUALITY OF LIFE FOR INFORMAL WORKERS - HEALTH STATUS**

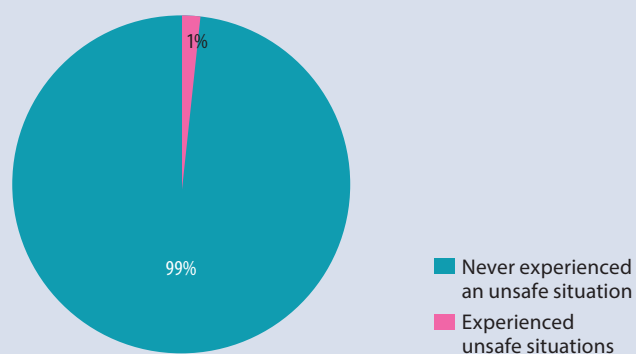
Health Status	Percentage (%)
Physical	
Have normal physicals	99.00
Have mobility-handicapped	1.00
- Blind	16.36
- Hearing impaired	14.25
- Mobility-handicapped	51.48
- Others	17.91
- Have a disability identical card	36.91
- Do not have a disability identical card	63.09
Personal illness	
Yes, they have illness	7.33
No illness	92.67
Does their work cause them health problems?	
None	84.13
Yes	15.87
- Stress	17.37
- Muscle pain	80.04
- Others	2.59

iv) Life security on the job

Sample survey data on informal workers' life security on the job in Table 8.14 shows the majority of informal workers (94.32%) have not been involved in any workplace injuries since they started working. Similarly, most have never experienced insecurity (98.76%) with only 1.24% reporting feelings of insecurity.

FIGURE 8.24**HEALTH STATUS OF INFORMAL WORKERS****TABLE 8.14****QUALITY OF LIFE FOR INFORMAL WORKERS - LIFE SECURITY ON THE JOB**

Details	Percentage (%)
Since starting work, how frequently have they been injured on the job?	
Never experienced insecurity	94.32
Experienced insecurity from work but do not admit	4.61
Experienced insecurity from work and admitted	1.07
Have they ever encountered an unsafe situation that endangered their life or property while working?	
Never experienced an unsafe situation	98.76
Experienced unsafe situations	1.24
- Being stolen	0.45
- Being robbed	0.06
- Others	0.73

FIGURE 8.25**OVERALL PERCENTAGE UNSAFE WORK SITUATIONS ENCOUNTERED BY INFORMAL WORKERS**

v) Environmental conditions

Environmental data in Table 8.15 from the survey indicates that 62.95% of informal workers were very satisfied with the living environment and lived within 0–3 km of the workplace. In addition, 40.91% mentioned that the location where they live has adequate electricity to suit their demands. Their satisfaction also included good road conditions and easy access to public transport as well as easy access to public services or facilities, such as hospitals, and police stations (38.92%). Other aspects of their environmental satisfaction included having quality tap water that was sufficient for consumption (38.18%) and had proper wastewater and air pollution management systems (37.98%). This was followed by having enough recreation areas and parks for everyone to live in (36.73%) and feeling safe from drugs and crime (35.84%).

TABLE 8.15**QUALITY OF LIFE FOR INFORMAL WORKERS - ENVIRONMENTAL SATISFACTION SURVEY RESULTS**

Satisfaction Related to Environmental	Opinion Level (Percentage %)				
	1	2	3	4	5
Quality tap water is sufficient for consumption	1.81	3.89	27.16	38.18	28.96
Sufficient electricity to fulfill their requirements	1.20	3.04	23.85	40.91	31.01
Proper wastewater and air pollution management systems	2.39	5.79	30.15	37.98	23.68
Being safe from drugs and crime	7.86	3.70	29.65	35.84	22.95
Enough recreation areas and parks for everyone to live in	7.54	3.31	29.25	36.73	23.17
Decent road conditions and convenient accessibility to public transportation	5.22	1.63	27.00	38.92	27.23
Capable of accessing public facilities, like hospitals and police stations	5.01	1.48	27.15	38.29	28.07

Note: Opinion level - 1 = least agree, 2 = less agree, 3 = moderately agree, 4 = very agree, and 5 = most agree

TABLE 8.16**QUALITY OF LIFE FOR INFORMAL WORKERS - WORKING CONDITIONS**

Working Problems	Percentage (%)
Problems from the main occupation of informal workers	
There are no occupational problems	81.64
Encountering issues with regards to the occupation	18.36
- The compensation they were promised was not received	12.15
- Late compensation	8.21
- Their working hours are excessive	9.16
- They are unable to stop working at their discretion	16.55
- They are not receiving any work-related welfare benefits	68.23
- Others	7.88
- The average daily working hours considering both primary and secondary occupations	7.94 hours/day

Note: Opinion level - 1 = least agree, 2 = less agree, 3 = moderately agree, 4 = very agree, and 5 = most agree

vi) Working conditions

Working conditions among informal workers across the country, as in Table 8.16, show 81.64% reported no occupational hazards. Only 18.36% claimed to have had occupational problems. Among those facing problems, the statistics showed 68.36% mentioned the problem of not

receiving welfare from work. Other issues included the inability to stop working as they wished (16.55%), not receiving compensation as agreed (12.15%), working too many hours (9.16%), experiencing late compensation (8.21%), and other problems (7.88%), respectively. Additionally, they have an average working time of 7.94 hours per day, including all main and secondary occupations.

vii) Readiness and potential to work

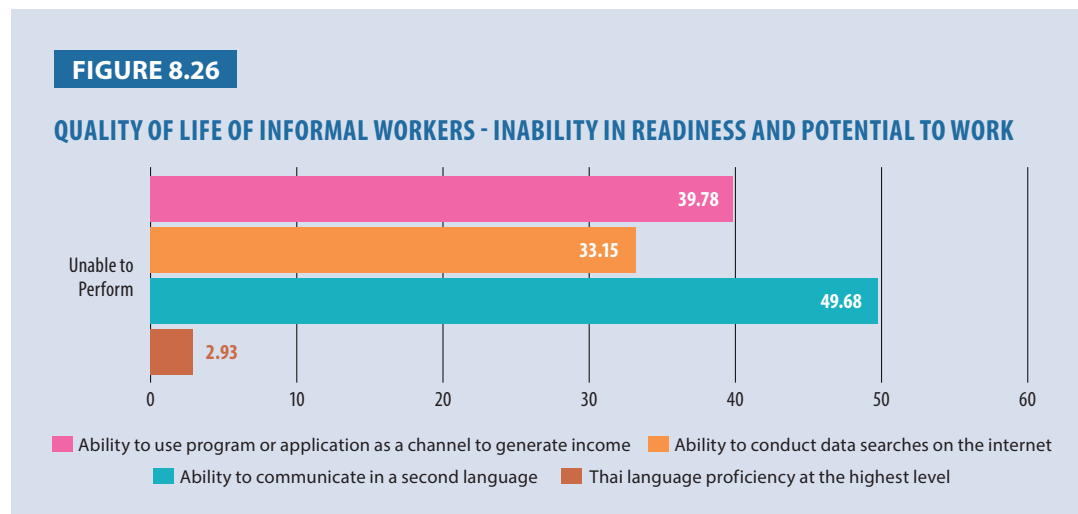
Data analysis on the potential and readiness to work in the informal sector in Table 8.17 shows that the informal workers have the highest level of Thai language skills in listening, speaking, reading, and writing (35.45%). However, up to 49.68% of them were unable to communicate in a second language. Furthermore, 39.78% lacked the ability to use certain programs or applications as a means of generating income, and 33.15% lacked the ability to use the internet for data search, which is a necessary skill in today's world.

TABLE 8.17

QUALITY OF LIFE OF INFORMAL WORKERS - READINESS AND POTENTIAL TO WORK SURVEY RESULTS

Readiness and Potential to Work	Unable to Do	Opinion Level (Percentage %)				
		1	2	3	4	5
Thai language proficiency at the highest level	2.93	3.89	6.84	23.74	27.16	35.45
Ability to communicate in a second language	49.68	17.99	13.86	11.82	4.49	2.16
Ability to conduct data searches on the internet	33.15	15.08	16.08	20.01	10.05	5.63
Ability to use program or application as a channel to generate income	39.78	16.24	15.07	16.46	8.16	4.28

Note: Opinion level - 1 = least agree, 2 = less agree, 3 = moderately agree, 4 = very agree, and 5 = most agree



Data on Protection and Social Security for Informal Workers

The data on protection and social security for the informal workers in Table 8.18 shows that most of them were covered by the protection and social security provided by the government (58.99%). However, 41.01% were not protected by labor protection laws or social security as they were not members of funds operated by the government. Similarly, most of the informal workers were not members of government fund, accounting for 74.25%. Further, 79.12% were also not members of privately operated funds, which meant they were also not protected by labor protection laws or social

security offered by those funds. The data on membership in various professional groups also show that most of the informal workers are not members of the aforementioned fund (87.68%).

TABLE 8.18**BREAKDOWN OF PROTECTION AND SOCIAL SECURITY STATUS OF INFORMAL WORKERS**

Protection and Social Security	Percentage (%)
Not protected by labor protection laws or social security	41.01
Protected by labor protection laws or social security	
- Insurer by law (Section 39)	6.78
- Insurer by law (Section 40)	20.85
- Disabled person who has social welfare cardholders	0.81
- Aging person who has social welfare	16.32
- Person who has social welfare cardholders	23.13
Members of funds operated by the government status	
- Not a member of any related funds	74.25
- Village Fund	24.13
- National Savings Fund	1.87
- Get to Work at Home Fund	0.37
Member of private group operation funds status	
- Not a member of any related funds	79.12
- Life insurance	9.49
- Social security private fund for social welfare	12.89
Member of various professional groups status	
- Not a member of any funds	87.68
- OTOP membership	3.02
- Community enterprise	2.45
- Group of farmers growing crops	6.32
- Farmers group	1.71
- Freshwater fish farmers group	0.52
- Sea fishing farmers group	0.18
- Aquaculture farmers	0.30

Data Related to Labor Problems among Informal Workers

Data related to labor problems among informal workers in Table 8.19 found that 72.5% reported that they did not have problems with work. However, among the respondents who mentioned that there were labor problems, the issues can be divided into eight categories: (i) intermittent work, which is a significant problem with a high percentage of 50.57%; (ii) not receiving compensation as agreed (37.35%); (iii) lack of general skills (27.45%); (iv) lack of a technology and innovation skills (21.87%); (v) lack of knowledge of legal rights related to informal labor, which is a serious issue among informal workers (12.33%); (vi) inability to form a professional union (11.71%); (vii) insecure jobs still abounds (7.58%); and finally, (viii) improper working environment as reported by 7.29% of the respondents.

FIGURE 8.27

LAW PROTECTION AND SOCIAL SECURITY STATUS OF INFORMAL WORKERS

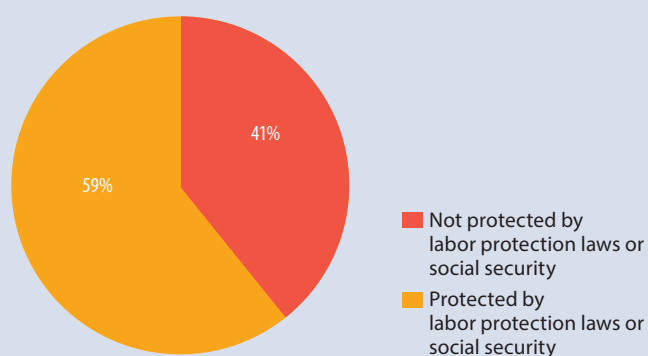


FIGURE 8.28

PROPORTION OF INFORMAL WORKERS IN GOVERNMENT-OPERATED FUNDS

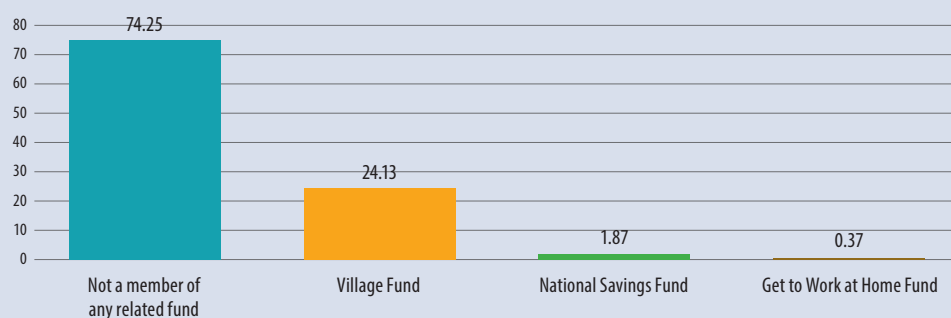


FIGURE 8.29

PROPORTION OF INFORMAL WORKERS IN PRIVATE GROUP OPERATION FUNDS

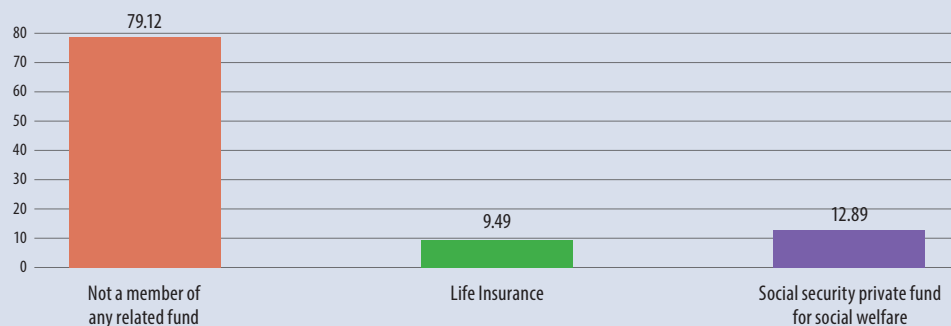


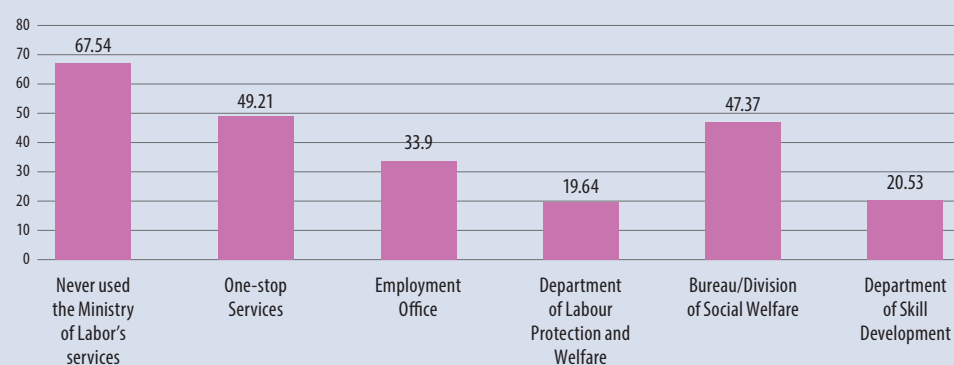
TABLE 8.19

TYPES OF LABOR PROBLEMS AMONG INFORMAL WORKERS

Labor Problems	Percentage (%)
No problem	72.50
Intermittent work	50.57
Lack of general skills	27.45
Lack of technology and innovation skills	21.87
Inability to form a professional union	11.71
Insecure jobs	7.58
Lack of knowledge of legal/rights	12.33
Improper working environment	7.29
Did not receive compensation as agreed	37.35

FIGURE 8.30

GOVERNMENT ASSISTANCE NEEDS FOR INFORMAL WORKERS

*Data Related to Government Assistance Needs for Informal Workers*

A cross-sectional survey conducted across the country, as presented in Figure 8.30, found that most of the informal workers of up to 67.54% have never used the services of the Ministry of Labor. However, some respondents reported using the services of various departments under the Ministry of Labor as follows: (i) One-stop Services (49.21%); (ii) Employment Office (33.90%), (iii) Department of Labour Protection and Welfare (19.64%), (iv) Bureau/Division of Social Welfare (47.37%); and (v) Department of Skill Development (20.53%).

In addition, the survey results on government assistance needs in Table 8.20 revealed that the majority of informal workers, up to 77.71%, require government assistance with capital to pursue a career. Another need is for the government to help them in maintaining job continuity (74.66%). The third need is for government support in agriculture (74.39%). Increasing fair remuneration is another issue that requires government assistance (73.54%). The last issue informal workers want from the government is access to labor news (71.26%).

TABLE 8.20

GOVERNMENT ASSISTANCE NEEDS

Needs from the Government	Percentage (%)	Level of Needs from the Government (%)				
		1	2	3	4	5
Domestic jobs	62.18	4.03	5.17	15.64	15.38	21.96
International jobs	46.61	7.84	6.09	12.33	10.08	10.27
Secondary jobs	69.89	3.08	5.98	19.11	21.83	19.89
General skill development	68.29	3.22	6.33	20.09	20.92	17.73
Technology and innovation skill development	66.20	3.83	6.98	19.57	19.94	15.88
Occupational integration	67.06	3.74	6.63	19.14	20.63	16.92
Secure jobs	67.10	2.86	5.55	19.13	20.03	19.53
Knowledge related to informal worker law	68.84	3.28	6.57	21.41	20.34	17.24
Good working environment	67.24	3.21	6.36	20.74	19.98	16.95
Increasing fair remuneration	73.54	2.35	4.54	16.73	22.15	27.77
Easy access to labor news	71.26	2.88	5.62	20.37	21.86	20.53
Capital to pursue a career	77.71	2.17	4.24	15.97	21.73	33.60
Maintaining job continuity	74.66	2.36	4.63	17.00	22.10	28.57
Agriculture support	74.39	3.67	5.58	15.93	20.03	29.18

Note: Level 1 = least need, 2 = less need, 3 = moderately need, 4 = very need, 5 = most need

Measurement of Productivity

Many external factors can have an impact on an organization's productivity, including the national economy, recession, inflation, competition, and other factors. Organizations may not be able to control everything, but they can control and measure employee performance. Employee productivity has a significant impact on profits and it can be measured using the labor productivity equation: total output /total input. This allows tracking productivity on an individual, team, or departmental level.

The productivity of workers in Thailand can be calculated using the following equation: GDP/Total workers. This study relied on data from the past year (2021) as it provides complete GDP and the number of total workers' data for accurate calculations.

$$\text{GDP / Total workers} = \text{Productivity}$$

$$\frac{10,403,700,000,000}{37,700,000} = \text{THB}275,960.21$$

According to the calculations above, the productivity product equals THB275,960.21/person/year, or approximately USD7,458.38/person/year.

After taking into account the productivity products of the informal sector for the same year, the average number of such products per person was determined as:

$$\text{GDP / Total informal workers} = \text{Productivity Product}$$

$$\frac{10,403,700,000,000}{19,600,000} = \text{THB}530,801.02$$

Based on the aforementioned calculations, the productivity product is equivalent to THB530,801.02 THB/person/year, approximately equal to USD16,165.74/person/year.

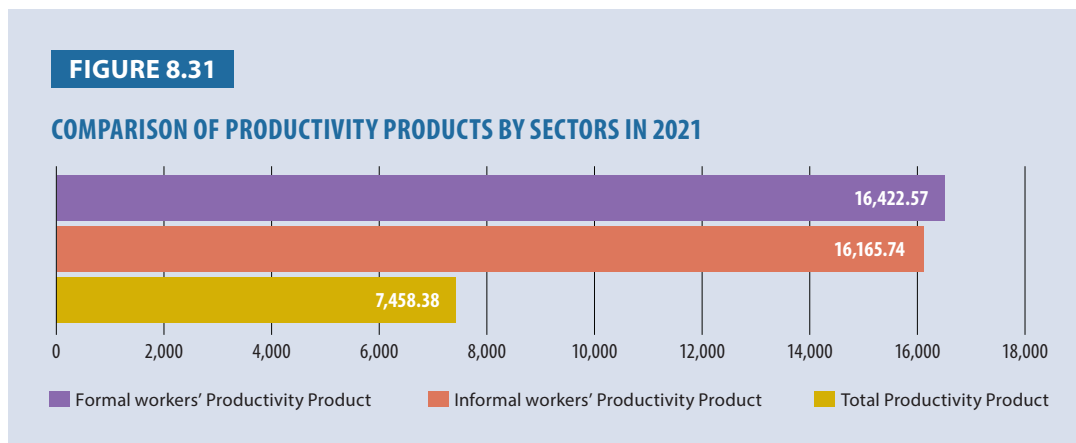
Similarly, the productivity products of the formal sector for the same year is also calculated. The average product value per person is determined as below:

$$\frac{\text{GDP} / \text{Total formal workers}}{\text{Total formal workers}} = \text{Productivity Product}$$

$$\frac{10,403,700,000,000}{18,100,000} = \text{THB}574,790.05$$

As a result, the average product value of the formal sector amounts to THB574,790.05, which is approximately equal to USD16,422.57/person/year.

Hence, there is a difference of THB43,989.03 or approximately USD1,256.82 between their respective productivity product values, indicating that the formal sector's productivity product is higher than that of the informal sector.



Policy Interventions and Support for the Informal Sector

The Constitution of the Kingdom of Thailand, B.E. 2560 (2017 C.E.), prioritizes informal workers with six sections of the law empowering their rights and freedoms. Section 65 of the Constitution mandates the development of a national strategy for sustainable national development, guided by the principles of good governance. The national strategy shall be employed as a framework for formulating consistent and integrated plans in a congruous drive to achieve the aforementioned goal in accordance with the rules and procedures enumerated by national strategy legislation. In this context, the National Strategy Act B.E. 2560 (2017 C.E.) was established to outline this strategy and the National Strategy Committee (NSC) has been tasked with drafting it. Public participation in the formulation of the national strategy, including monitoring, inspection, and evaluation were incorporated as measures to encourage and support all civic sectors to align with the national strategy.

In accordance with the National Strategy Act B.E. 2560 (2017 C.E.), the NSC has set up six National Strategy Drafting Committees. Each committee is responsible for developing a set of key strategies on set criteria, methodology, and requirements, focusing on various aspects, as the following:

- Well-being of Thai people and society
- National competitiveness, economic growth, and income distribution
- Development of human capital

- Social equality and equity
- Sustainability of national biodiversity, environmental quality, and natural resources
- Government efficiency and better access to public services

The fourth focus above places a strong emphasis on social equality and equity, aiming to enhance opportunities and overall well-being for the population, including informal workers. The goal is to cultivate a quality population that thrives in terms of health, economy, society, and environment, fostering self-sufficiency and benefitting families, communities, and society at large. Additionally, the objective is to provide fair and universal access to quality services and welfare. The Ministry of Labor plays a significant role in implementing policies that promote the welfare of informal workers across all occupational groups.

In this study, policy implementation groups to assist informal workers were divided into two groups: the first group looked at policies that have been implemented and those that are still ongoing while the second group oversaw policies that are currently in progress. The aim is to continually improve social security measures and provide support for all segments of informal workers in accordance with the law and the Ministry of Labor's mission.

Policies that are already in place or being implemented looked into these aspects:

- i) Scaling up opportunities, careers, and stable incomes for those entering the labor market, including women, underprivileged individuals, and legal migrant workers as well as improving labor quality.
- ii) Providing informal workers access to standardized learning and skill development at all levels. Linking public and private agencies to meet the needs of all areas and the country as a whole.
- iii) Supporting informal workers in transitioning to formal employment, as needed.
- iv) Developing effective and sustainable social protection, savings system, and community welfare.
- v) Promoting vocational and community college education to increase the number of skilled workers, particularly in labor-demand areas, and aligning educational standards with professional standards.
- vi) Ensuring workers are entitled to labor law benefits through regulation, monitoring, and assistance in understanding their rights and protection under labor laws.
- vii) Promoting career development and income growth among informal workers.
- viii) Identifying strategies to offer financial support to different occupations and professional associations as some informal worker communities have established foundations to support each other.
- ix) Promoting measures to increase sufficient income by setting a minimum wage and implementing measures to decrease the cost of living necessities, such as controlling the price of essential goods for consumption.
- x) Supporting agriculture by reducing production costs and ensuring higher prices for agricultural products, recognizing Thailand's status as an agricultural country and its impact on the quality of life for informal workers.

- xi) Encouraging informal workers to pursue additional careers and providing easier access to funding sources for occupation, ensuring continuous employment, and sufficient income to cover their expenditures.
- xii) Encouraging informal workers to recognize the importance of voluntary self-development in their second language proficiency or digital communication. Attending online training courses can help them use programs or applications to increase the opportunity to earn more income.
- xiii) Promoting, supporting, and raising awareness among informal workers about the benefits of saving and provide information about government-operated funds, such as the National Savings Fund and Village Fund. This can provide them with social security if they are members of these funds.

Policies in progress meanwhile are as follows:

- i) Accelerate and promote a bill to develop the quality of life and protect the rights of informal workers. The bill aims to enable informal workers to form professional groups and organize informal labor organizations, granting them bargaining power and ensuring work fairness. It also aims to facilitate informal workers access to loans from the Quality Development Promotion Fund. Additionally, if the bill is passed, it will provide social security, occupational safety, and a conducive working environment for informal workers.
- ii) Promote Section 40 voluntary social security by encouraging informal workers to enroll in their voluntary social security rights. Self-employed members under Section 40 will be entitled to benefit in five situations, including accidents or illnesses, disability, death, retirement, and child allowance. Currently, there are 10,900,737 informal workers who are members of the Social Security Fund, Section 40 (Social Security Office, Ministry of Labor, 2023).
- iii) Encourage self-employment through drafting legislation, namely the Informal Labor Act, which is under consideration by the Council of State. The Act aims to establish an independent labor promotion and protection fund. It will provide reskilling and upskilling for informal workers, promote freelance jobs, and create mechanisms and identities for them. The Act also requires informal workers to register, thereby creating a comprehensive informal worker database nationwide.
- iv) Develop an informal worker network by creating an online platform or application that allows informal workers to register both online and on-site. This database will display real-time information and enable tracking of personal data and locations. The target date for completing the database was the end of March 2023.

CONCLUSION

Productivity is the cornerstone of organizational development, measuring the successful management of resources, like raw materials, time, and personnel to achieve maximum efficiency, productivity, and profits. It offers various benefits, including building a strong reputation and lasting customer relationships, utilizing human resources to their full potential, and fostering good morale and a high quality of life for employees. Therefore, productivity is one of the most important goals and the key to success that every organization should not overlook, including in the informal sector. Increasing the productivity of an organization benefits all stakeholders, leading to economic growth and enhance competitiveness in the global market. The outcome of improved productivity results in organizational profits, job security, higher employee wages, top quality products and services for customers, increased tax and other revenues to the state, and overall well-being for entrepreneurs, employees, customers, the environment, and the nation.

Inclusive productivity is influenced by several factors, such as individual-level training and education, technology, access to capital for firms, and the working environment, all of which contribute to increased labor productivity (OECD 2021). The government plays an important role in enhancing productivity, making it crucial for the country to explore effective methods to boost productivity in both the formal and informal sectors. The proposed policy interventions and support mentioned above aim to link inclusive productivity by offering social security to informal workers and facilitating their transition to formal employment, should they choose to do so. Labor policies have a significant impact on workers and their families, and the commitment lies in promoting the welfare of all workers, especially those in the informal sector, by safeguarding their rights and protecting them from exploitation.

The Ministry of Labor is at the forefront of implementing policies that promote decent work and social protection for all in Thailand. It has also been instrumental in facilitating the country's transition toward a more skilled workforce through skills development initiative. In today's rapidly changing world, it is essential that labor policies are adaptive and flexible to address emerging challenges, such as globalization, technological advancements, and the evolving nature of work. As policymakers, the ministry is committed to ensuring that labor policies are responsive to the needs of all workers, including those in the informal sector.

CHAPTER 9

TURKIYE

EXECUTIVE SUMMARY

Informal economy is viewed as activities that generate income and hidden from public view, distort the accurate representation of a country's economic indicators, and lead to the implementation of erroneous economic policies. The phenomenon of informal economy has become one of the important issues faced by both developing and developed countries. It negatively impacts countries' economies and necessitates combating this phenomenon and implementing appropriate measures. In Türkiye, various policies and documents have been created to address informality.

In this study, informality in Türkiye was analyzed in the period between 2016 and 2021, using microdata obtained from the Household Labor Force Survey (HLFS). It was also analyzed separately based on firm scale, region, sector, and gender, which allowed for understanding each of its characteristics and its relationship with employee wages. In addition to these, the study also emphasized the correlation between informality and productivity.

Using the annual productivity statistics published by the Official Statistics Program in Türkiye, the relationship between productivity and informality was explored across the primary sector and subsectors of the manufacturing industry. For the results, the Microdata of Household Labor Force Survey (HLFS) was used to identify and evaluate the wage values per hour worked on a sectoral basis.

INTRODUCTION

The informal economy can be defined as all types of economic transactions that operate beyond the knowledge and control of public authorities. These transactions encompass both capital (one of the factors of production) and labor factors, and usually appear as the employment of workers in violation of social security laws. Therefore, informal employment refers to the segment as part of the population working in a country but not accounted for in official employment indicators. In addition, undeclared employment, which should be reported according to the relevant legislation, is also referred to as unregistered employment in the narrower sense.

Though it was first discussed in the 1970s, researches have yet to arrive at a universally accepted definition of informal economy. Nevertheless, it can be described as income-generating economic activities that contribute to the gross national income but it cannot be estimated through conventional statistical methods and is not recorded to evade taxes and other regulations [1]. Further, alternative terms, such as hidden economy, clandestine economy, parallel economy, invisible economy, shadow economy, and illegal economy are also used in reference to the concept of informal economy. Informal economy is closely linked to a country's development levels and it is a complex and multifaceted issue that needs to be resolved as it impacts numerous macroeconomic variables, including employment, demographic structure, tax burden, economic growth, and unemployment in modern economies.

For an activity to be classified as unregistered, it must lack or maintain incomplete records of the economic transaction and operating outside the purview of public administrations. Failure to keep records of economic activities hinders the ability to accurately determine macroeconomic variables, such as economic growth, unemployment, and income distribution. These impede making correct and effective diagnoses and solutions in combating economic problems.

Due to the difficulties in supervising and controlling informal activities, they are more prevalent in agriculture and service sectors. These informal activities can have both positive and negative effects on the economy. The informal spectrum encompasses transactions that involve various activities and are partially or completely evading taxation. Confidentiality arising from the nature of the informal economy creates difficulties in estimating the size of its volume and in conducting related audits [2].

When examining the reasons behind the formation of the informal economy, political, cultural, legal, moral values, and the development levels of countries come to the forefront. In fact, it can be said that informality arises mostly from the tax burden in a developed economy, whereas in developing countries, it is often a result of demographic changes or income distribution disparities. It is observed that countries with strong economic structures and well-established institutions, the size of informal economy tends to be minimal. Although it differs from country to country, economic and financial motives typically play a central role in the emergence of the informal economy. In order to have more income, individuals keep some or all of their economic activities out of the official records and avoid paying taxes on their earnings from these activities. As a result, they get more disposable income compared to taxpayers [3].

INFORMAL ECONOMY IN TURKIYE

The informal economy refers to the economic activities that operate in secrecy from the state, remain unrecorded, and are beyond governmental control. While some unregistered activities may be illegal, others intentionally avoid recording as a means of evading taxes for activities that are not prohibited.

In this context, addressing transactions that are deliberately unregistered and preventing of tax losses, and evasion resulting from such transactions, become crucial for the healthy functioning of the economy. The rise of informality in the economy leads to unfair competition among individuals and institutions, disrupts the balance of income distribution, reduces voluntary tax compliance among taxpayers, and erodes tax awareness and social values.

To combat this issue effectively, a determined and resolute approach is essential, to consider the root causes, consequences, scale, strategies, and methods of combating the informal economy as a whole. Türkiye has taken successful steps in battling the informal economy through action plans, governmental programs, development plans, medium-term plans, annual programs, and financial plans prioritizing the elimination of the problem.

Especially after 2000, concrete steps were taken in the fight against the informal economy, making efforts to register informal economic activities as one of the key goals for political decision-makers and practitioners.

Due to the mixed effects of informal economic activities, many countries recognized the need to take measures to address this phenomenon. However, there may be some obstacles in the fight against the informal economy. For instance, economic units benefiting from informal activities might form pressure groups that resist the registration of the informal economy. To overcome such resistance, these obstacles must be addressed or persuaded before commencing to fight against the informal economy. In addition, the following basic principles should be considered in crafting a policy to minimize the informal economy [4]:

- A clear plan must outline which measures will be implemented, when, and in what manner to fight against the informal economy
- Combating the informal economy should be firmly adopted as a long-term and effective state policy, ensuring a stable and consistent effort
- The support of all segments of society is essential to create an environment conducive to an effective struggle
- It is important to recognize that the informal economy cannot be entirely eradicated from an economy

In line with this purpose, Turkiye has pursued various policies to combat the informal economy, including:

- Establishment of the Revenue Administration
- Implementation of the Tax Offices Full Automation Project
- Setup of the Tax Inspection Board
- Initiative to combat unregistered employment
- Redefinition of the duties and authorities of the Financial Crimes Investigation Board
- Adoption of the Informal Economy Struggle Strategy Action Plan
- Implementation of the Tobacco and Tobacco Products Smuggling Action Plan
- Inclusion of the Informal Economy in Medium-Term Programs
- Development of the Pre-Accession Economic Programs to the EU
- Establishment of insurance policies to prevent informal economy
- Implementation of the Law on Bringing Some Assets to the National Economy
- Promotion of credit card usage
- Fostering e-transformation in the informal economy

These policies are essential components in addressing the informal economy phenomenon.

Under the coordination of the Revenue Administration and with the responsibility and cooperation of public institutions and organizations, the Strategy Action Plans for Combating Informal Economy for the periods 2008–10 and 2011–13 were successfully implemented.

In line with the targets set in the 10th Development Plan, the "Reducing Informal Economy Program Action Plan (2015–17)" was developed as one of the "Priority Transformation Programs" to achieve the goal of healthy and sustainable development. The plan aimed at reducing the informal economy and was accepted by the Economic Coordination Board.

Subsequently, the Presidential 2019 Annual Program included the “Reducing Informal Economy Program” under the purview of the Revenue Administration. The program envisioned preparing and implementing an Action Plan to Combat Informal Economy, involving broad participation and taking into account contributions and suggestions from relevant public institutions, organizations, and NGOs.

Following extensive correspondence, meetings, and negotiations with various public institutions, organizations, and NGOs, the Strategy Action Plan for Combating Informal Economy (2019–21) was prepared within this context.

The Action Plan comprises 39 actions under five main components, as listed in the following:

- Raising volunteer compliance level
- Strengthening audit capacity
- Reviewing legislation and making arrangements
- Improving interinstitutional data sharing
- Raising awareness for all sections of the society

The Action Plan will be executed in coordination with the following organizations under the responsibility of the Revenue Administration. If necessary, cooperation will also be sought with other public institutions and organizations:

- Ministry of Family, Labor and Social Services
- Ministry of Environment, Urbanisation and Climate Change
- Ministry of Energy and Natural Resources
- Ministry of Youth and Sports
- Ministry of Treasury and Finance
- Ministry of Culture and Tourism
- Ministry of Health
- Ministry of Agriculture and Forestry
- Ministry of Trade
- Ministry of Transport and Infrastructure
- Banking Regulation and Supervision Agency
- Energy Market Regulatory Authority

- Social Security Institution
- Turkish Statistical Institute
- Small and Medium Enterprises Development Organization

LITERATURE REVIEW

A large part of unregistered employment in Türkiye is found in the agricultural sector. One of the important factors to informality in this sector is the practice of individuals working as unpaid family worker. According to Özer and Biçerli [5], approximately 80% of women employed in the agricultural sector work as unpaid family workers. Further, income obtained from agriculture is influenced by seasonal and external factors, such as adverse weather conditions, harmful pests (insects, fungus, etc.), natural disasters, and fluctuating prices of fertilizers and seeds. These lead to the unregistered employment of mobile and temporary casual workers in agricultural areas. The low levels of income further exacerbate the lack of social security coverage for a significant portion of the population, including self-employed individuals, unpaid family workers, and mobile and temporary agricultural workers. This situation results in optional insurance coverage for agricultural workers and lower income levels.

Informality is also prevalent in the construction industry. The sector relies on labor-intensive technology and offers high employment capacity. However, most of the workers in this sector are employed on a temporary, daily basis. Working on a daily wage is one of the main factors of informality.

Outsourcing plays a role as well with subcontractors seeking to minimize costs and complete projects within specific time frames. Thus paying low daily wages to workers becomes a significant concern for subcontractors. The construction sector's reliance on daily or temporary work further contributes to informality, leading to employment of low-income workers, unskilled laborers, and migrant workers, who are often available as cheap labor force.

The current economic structure of countries and the associated structural characteristics play a crucial role in influencing the informal economy. Small businesses, commonly found in relatively underdeveloped or developing countries, are challenging to monitor and audit due to their structure. This results in these businesses being excluded or 'escape' from many legal regulations. When developing countries undergo industrialization, employment opportunities that emerged during this process do not generally overlap with those who migrated from rural to urban areas. Consequently, where the employment opportunities created by industrialization are lesser than what is required, the service sector fills this gap and becomes a significant source of work. However, jobs in the service sector often entail relatively low-added value, resulting in outcomes of lower quality and productivity that is typical to informal economy.

As a result of the transformations in the economy with globalization, industrialized societies caused migration from villages to urban areas. This situation has brought along high unemployment rates in the cities. A study revealed that globalization's impact on employment, the expansion of production on a global scale, the spread of contract manufacturing, the subcontracting system, and flexible working arrangements have all intensified informal and low-wage work [6].

Another study that looked into the consideration of development levels of countries in informal employment found that while unemployment and underemployment decreased with economic growth in developed countries, these rates increased with economic growth in developing countries [7].

There are various approaches and perspectives in the literature on the role of the informal sector in the economy. As shown in Table 9.1, these approaches, which are based on the effects of the informal economy and supported by empirical studies, can be divided into two main groups, positive and negative, under four distinct headings [8].

TABLE 9.1

EFFECTS AND APPROACHES

Effects	Positive Approach	Negative Approach
MACROECONOMIC	<ul style="list-style-type: none"> • Accelerates economic growth • Reduces unemployment • Suppresses inflation • "Easing" economic crises • Mobilizes idle resources • Increases total supply • Creates additional demand for the formal sector • Generates financial resources for the formal sector • Neutralizes the consequences of ineffective economic policies • Quickly turns savings into investments 	<ul style="list-style-type: none"> • Reduces economic growth • Raises inflation • Creates economic instability • Raises the level of "dollarization" • Reduces the effectiveness of economic policy when statistical data is distorted • Reduces total economic efficiency by transferring resources to sectors that are suitable for informality • Restricts export potential • Increases capital flight from the country • Creates more informality in the economy
MICROECONOMIC	<ul style="list-style-type: none"> • Lowers entrepreneurial costs • Provides the opportunity to avoid rigid bureaucracy • Offers cheap goods and services • An additional source of income for individuals • Strengthens competition in the domestic market • Dealing "blows" to monopolies • Provides competitive advantage in the foreign market • Offers "exclusive" market relationships • Offers more flexible working time • Offers more freedom to employees • Creates a more humane work environment • Generates potential for innovation 	<ul style="list-style-type: none"> • Deprives them of public services • Blocks access to sound financial resources • Creates an unfair competitive environment • Reduces productivity by downsizing businesses • Hinders branding • Eliminates advertising opportunities • "Informality" creates costs • Weakens the innovation potential • Creates an unhealthy work environment • Violates consumer rights • Weakens the union institution • Reduces competitiveness in foreign markets
PUBLIC FINANCE	As a significant part of the income generated in the informal sector is spent in the official sector, it increases the income from indirect taxes.	<ul style="list-style-type: none"> • Increases the tax burden in the official sector • Honest taxpayers are "punished" • Restricts public services • Destroys tax morale • Creates a "free-rider" problem • Weakens the tax authority
SOCIAL	<ul style="list-style-type: none"> • Prevents social "explosions" • Provides employment to unskilled labor • "Mitigates" unfair income distribution • Reduces corruption 	<ul style="list-style-type: none"> • Constitutes a mass of people without social insurance • Deepens ecological problems • Gives way to skewed urbanization • Promotes child labor • Weakens the sovereignty of the state. • Destroys social morality • Encourages the practice of corruption and increases rent • Weakens democracy and the legal system • Weakens people's loyalty to the state • Increases crime rate in society

DATA COMPILATION

The ILO makes a distinction between employment in the informal sector and informal employment. Hussmanns [9] summarizes the distinction as "... the informal sector had to be defined in terms of characteristics of the production units (enterprises) in which the activities take place (enterprise approach), rather than in terms of the characteristics of the persons involved or of their jobs (labour

approach)". The 15th International Conference of Labour Statisticians (ICLS) [10] defined the informal sector as "enterprises owned by individuals or households that are not constituted as separate legal entities independently of their owners, and for which no complete accounts are available that would permit a financial separation of the production activities of the enterprise from the other activities of its owner(s)".

On the other hand, the 17th ICLS defined informal employment as "the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period". These concepts of enterprise-based employment in the informal sector and the individual-based informal employment are complementary and not mutually exclusive. In this study, the second framework is employed, which takes the individual as the unit of observation and uses "informal employment" to refer to working individuals who are not registered at the Social Security Institution (SSI). Accordingly, throughout the period, the informality ratio represents the proportion of informally employed individuals to the total employment.

The data source used to investigate the dynamics of informality in Türkiye is the Turkish HLFs, compiled and published by the Turkish Statistical Institute on a micro basis. The survey utilized a Household Labor Force Questionnaire as repetitive cross-sectional data, annually covering approximately 400,000 people aged 15 and above, providing a substantial sample size. The survey encompassed a rich set of variables, such as workforce, profession, industry branches, allowing for detailed regional-level analysis. For this study, informality information for the years 2016 to 2021 was derived from this survey.

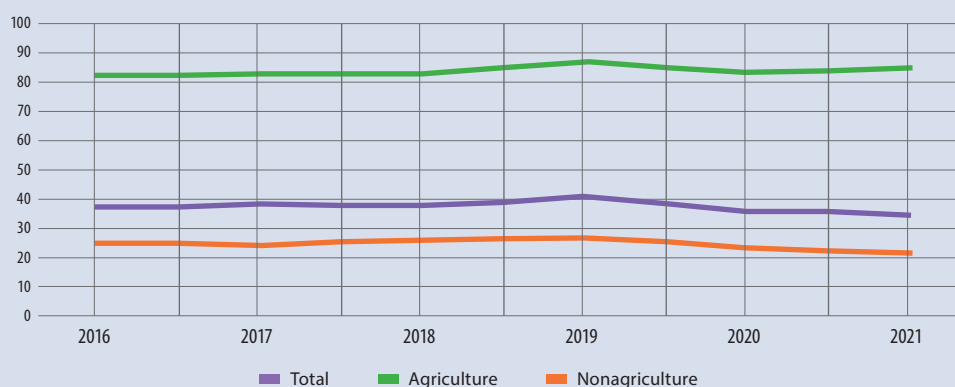
ANALYSIS

Türkiye has witnessed high levels of informal employment over the past few decades. Despite a declining trend, a significant proportion of the employed workforce continues to work without social security coverage. Figure 9.1 illustrates the evolution of the informal employment for total, agriculture, and nonagricultural sectors in Türkiye during the period 2016–21.

While the informal rate of the agricultural sector remained around 85%, the informal rate of the nonagricultural sectors was around 20%. Moreover, the informal rate in the nonagricultural sectors has shown a decreasing trend since 2019. Figure 9.2 plots the informality rates categorized by firm size for

FIGURE 9.1

INFORMALITY RATES (% , 2016–21)



the years 2016–20. According to the HLF5, informality was most prevalent among microfirms, where 54.2% of workers in firms with 1–9 employees were not registered in the social security system in 2020. As depicted in the same figure, the rate of informality decreased as the scale of the firm increased. In companies with 50 or more employees, the informality rate dropped to around 3% while it remained above 10% in other companies. However, due to the change in the definition of firm size in 2021, data for that year is not shown.

FIGURE 9.2

INFORMALITY RATES BY FIRM SIZE (% , 2016–20)

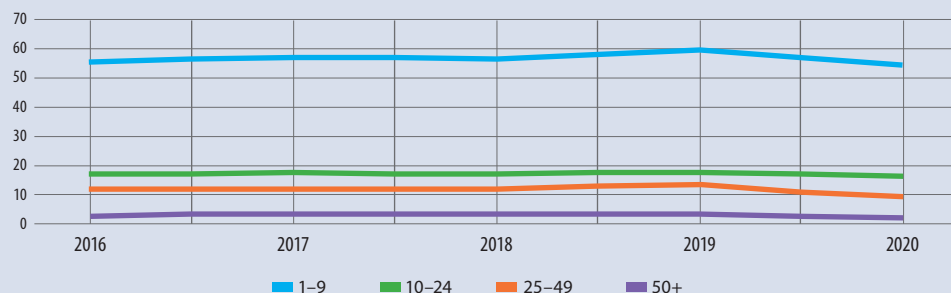
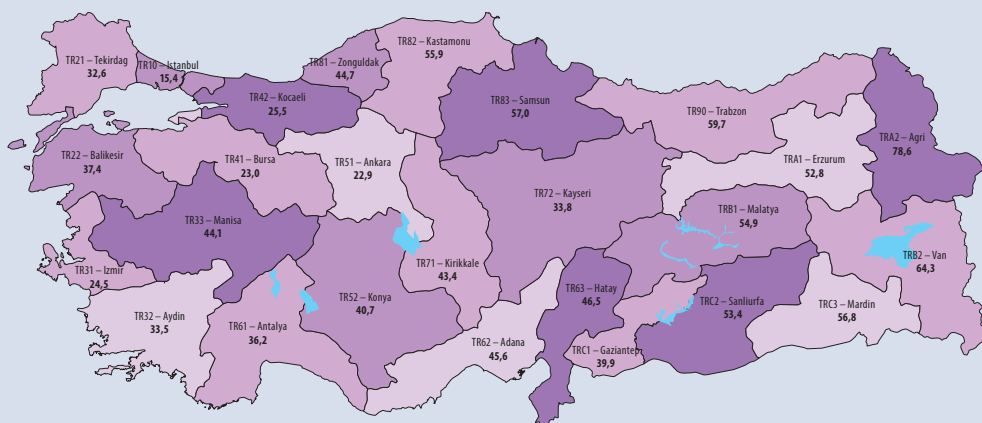


FIGURE 9.3

REGIONAL INFORMALITY RATES (% , ALL SECTORS, 2021)



Figures 9.3 and 9.4 show informality rates at the NUTS2¹ region level for all sectors and nonagricultural sectors in 2021, respectively. The informality rate exhibited significant variations between regions with higher values observed in the northern and eastern parts of the country. Regions with intensive agricultural activity tend to have higher informality rates, mainly due to the considerable number of unregistered agricultural workers. Figure 9.4, which excludes employment in agriculture, shows the

¹ Regional data is available at Nomenclature of Territorial Units for Statistics (NUTS)-2 level, including 26 regions in the country. NUTS is a geographic classification established by Eurostat to provide a single uniform breakdown of territorial units to produce regional statistics for European Union.

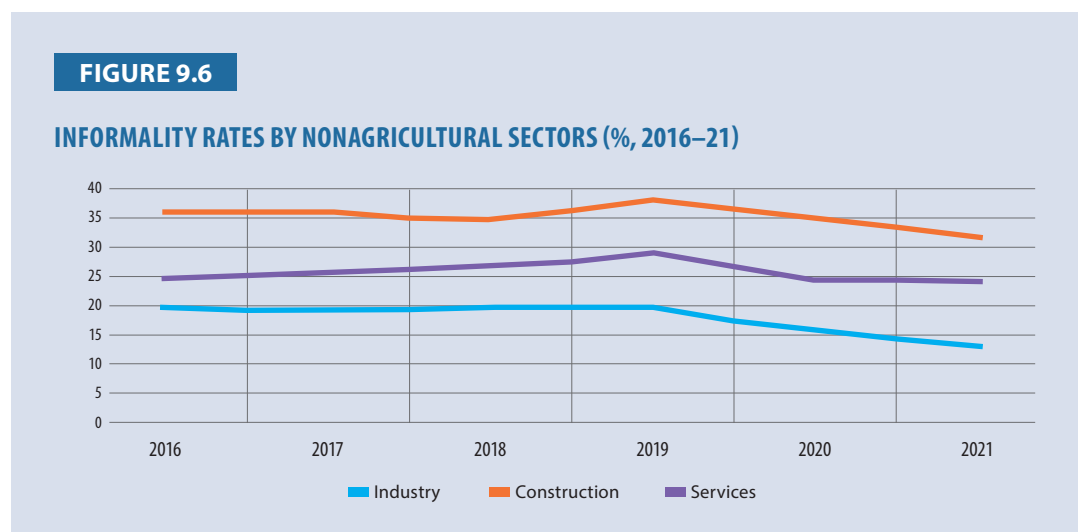
eastern and southeastern parts of the country still record high rates of unregistered employment. Despite a declining trend, these regions continue to have the highest levels of informal nonfarm employment. Comparatively, informality was lower in the western regions, especially in Istanbul, Ankara, and Bursa.

FIGURE 9.4**REGIONAL INFORMALITY RATES (% , NONAGRICULTURAL SECTORS, 2021)**

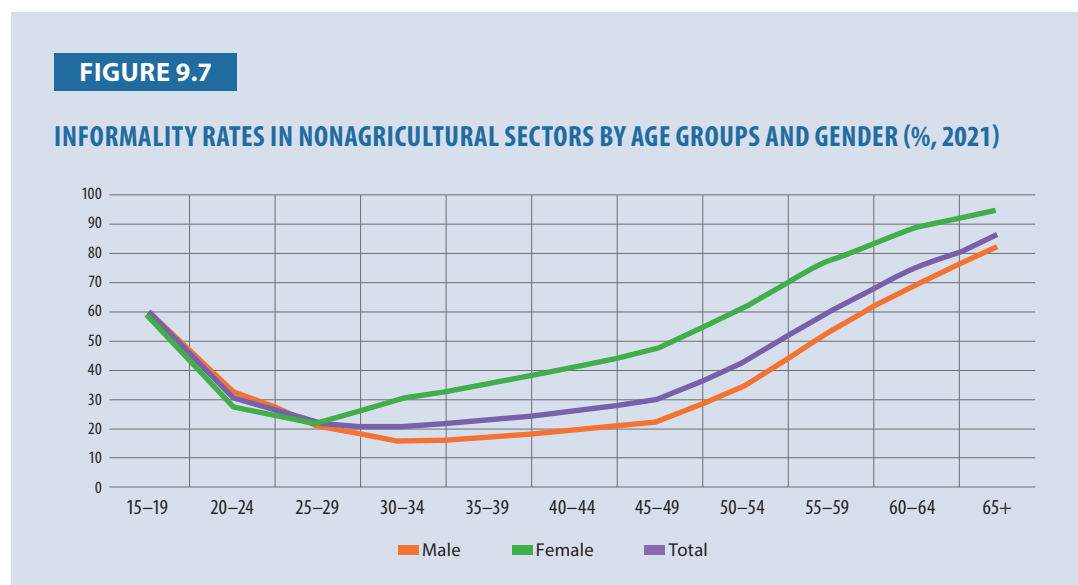
Sectoral differences are one of the factors that explain the high level of unregistered employment in Türkiye. Figure 9.5 presents employment trends in the agriculture, industry, construction, and service sectors for the period 2016–21. The service sector constituted about half of the total employment, followed by the industry, agriculture, and construction sectors, respectively. While employment in the agricultural sector decreased from 22.6% to 20.3%, the share of the industrial sector increased from 21.8% to 24.2%. In the construction sector, the decline in 2019 was striking with the employment share, dropping from 8.5% to 6.7% in 2019.

FIGURE 9.5**EMPLOYMENT BY SECTORS IN 2016–21**

Figure 9.6 illustrates the informality rate of industry, construction, and service sectors. In each sector, informality has shown a decreasing trend with a more pronounced decline since 2019. The industry sector showed the most substantial reduction in informality while the construction industry showed the least reduction.

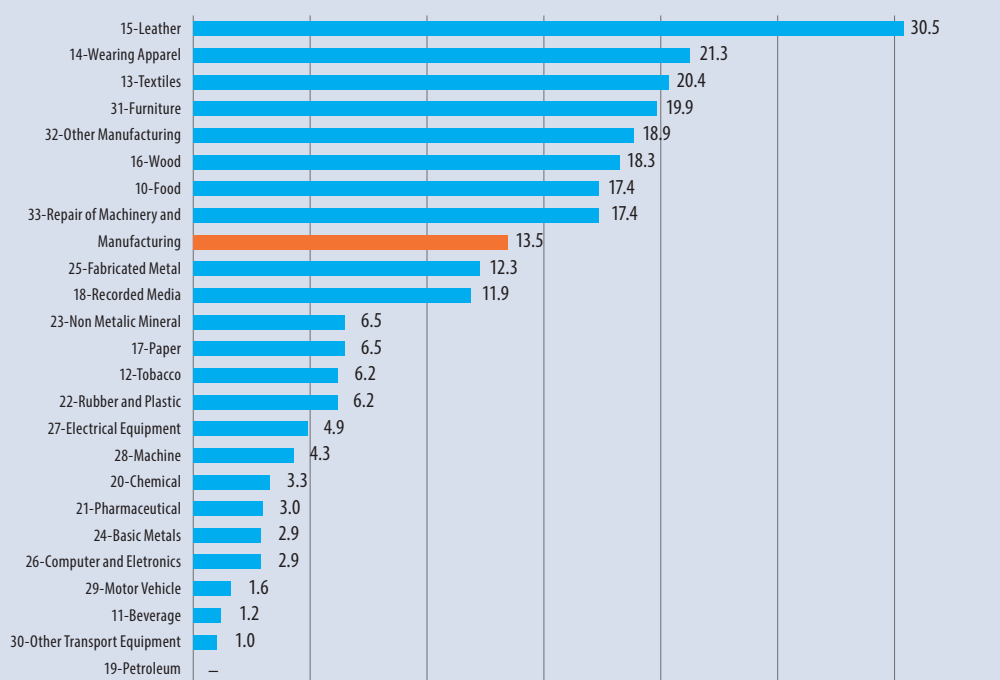


The incidence of informality also varied based on worker characteristics. The HLFS revealed a significant gender gap in informality, mainly attributed to the high proportion of females working without social security in the agriculture sector. Figure 9.7 suggests that the U-shaped informality structure by age profile in nonagricultural sectors, regardless of gender.



While the age range with the lowest informality in men was 30–34, for women, it was 25–29. In general, the age group of 30–34 exhibited the lowest informality rate. For the 15–19 age range, informality was around 60% for both men and women. While informality increased after 25–29 age range for women, for men, it went up after the 30–34 age range. This increase tends to accelerate after the 45–49 age range. For both genders, the age group with the highest informality was 65 and over. In the light of this information, it can be said that informality rises with increasing age.

In the overall manufacturing sector, the rate of informality was 13.5%. Among the 24 subsectors in the manufacturing industry, eight subsectors have informality rates above the manufacturing industry average while 16 subsectors have rates below the average. When the subsectors were analyzed, the leather sector exhibited the highest informality rate at 30.5%, followed by the wearing apparel sector at 21.3%, and the textile sector at 20.4%. Generally, it is seen that informality is high in low-tech sectors. Conversely, the other transportation equipment sector (including the manufacture of airplanes, spacecraft, railway, ship, boats, etc.) saw the lowest informality rate at 1%, followed by the beverage sector at 1.2%, and the motor vehicles sector at 1.6%.

FIGURE 9.8**INFORMALITY RATES IN MANUFACTURING SECTORS (% , 2021)**

When comparing the average wages of informal and formal employments according to the NUTS-2 regional level, the average wage of formal employment amounted to USD406² while the average wage for informal employment was USD225. Looking at the average wage, a registered employee was paid 80% higher wages than an unregistered employee. The results are shown in Figure 9.9.

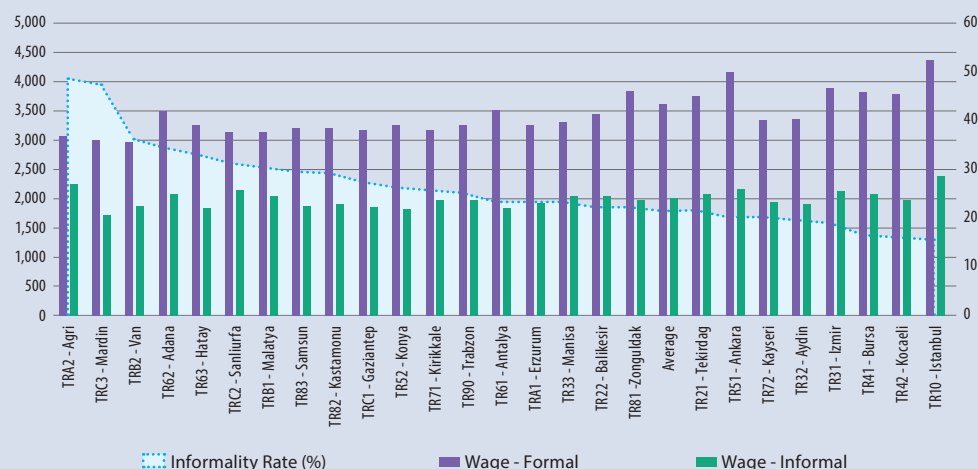
Among the subregions, the highest average wage for registered employment was USD491 in the Istanbul region, followed by USD466 in Ankara, and USD438 in Izmir. On the other hand, the lowest average wage for registered employment wages was in the Van region at USD331, followed marginally higher by Mardin at USD335, and Ağrı at USD337.

When analyzing the unregistered employment wages of the subregions, the highest value was observed in the Istanbul region with an average of USD270 and an informality rate of 15.2%. It was followed by Ağrı with 48.8% informality, where the average wage was USD252, and Şanlıurfa with 31.1% informality,

² The average dollar rate was TRY8,927 (Turkish lira).

FIGURE 9.9

REGIONAL INFORMALITY RATES AND WAGES IN NONAGRICULTURAL SECTORS (USD, 2021)



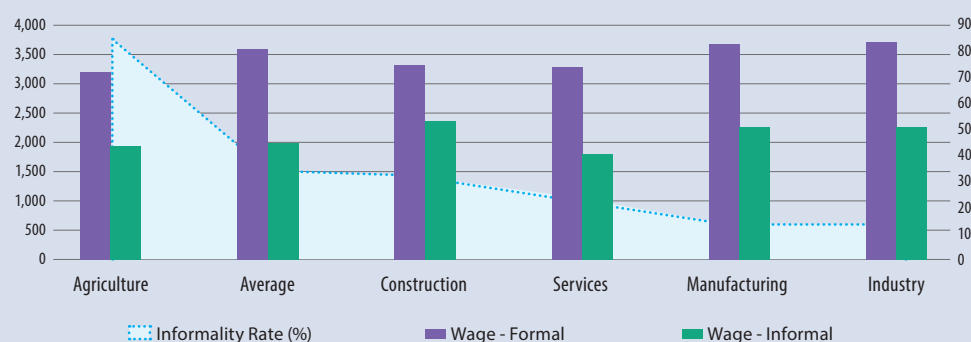
charting an average wage of USD241. On the other hand, the lowest unregistered employment wage was recorded in the Mardin region at USD190; followed by Konya at USD204, and Hatay at USD205.

Figure 9.10 highlights the informality rate and wages at the sectoral level. Accordingly, informal industrial workers earned above-average wages, averaging at USD426. The construction and service sectors followed the industrial workers while the agriculture sector, in contrast, paid the lowest wage to its employees with an average of approximately USD359.

Looking at the informal employment of the sectors, construction stood out as the highest payer. With an informality rate of 32%, the construction sectors paid its employees an average of USD264, followed by the industry and agriculture sectors. The service sector paid USD202 to its employees, even though its informality rate was lower than that of the agriculture sector at 1 in 3.5.

FIGURE 9.10

SECTORAL INFORMALITY RATES AND WAGES IN NONAGRICULTURAL SECTORS (USD, 2021)



PRODUCTIVITY

This section looks into productivity statistics and wages per hour worked. The Ministry of Industry and Technology is responsible for calculating labor productivity to measure national productivity, make international comparisons, and publish relevant data periodically. These statistics, known as National Labor Productivity Statistics, fall under the scope of the Official Statistics Program (OSP³). The OSP is prepared by the TURKSTAT in order to determine the basic principles and standards regarding the production and publication of official statistics. Its task is also to produce up-to-date, reliable, timely, transparent, and impartial data in the required fields at the national and international levels.

In this context, quarterly and annual productivity statistics are published by the Ministry of Industry and Technology. In quarterly statistics, labor productivity based on gross output reveals the amount of labor required per unit of output and analyzes labor across economic activities. The quarterly productivity statistics consist of two key indicators that look at the basic labor productivity statistics with the base year for these calculations is set as 2010: the production index per employee and the production index per hour worked.

- Production index per employee represents the ratio of the quantity index of gross output to the quantity index of labor input (number of employees)
- Production index per hour worked shows the ratio of the quantity index of gross output to the quantity index of labor input (hours worked)

These quarterly productivity statistics cover mining and quarrying, manufacturing, electricity, gas, steam, and air conditioning production and distribution sectors as well as manufacturing industry subsectors, starting from the first quarter of 2009.

In annual productivity statistics, the value added index per employee and unit labor cost are calculated with the base year remains 2010. The added value per employee is derived by dividing the factor cost and the value-added variable by the number of employees. On the other hand, the unit labor cost index is obtained by calculating the ratio of labor cost to factor cost and value added. The annual productivity statistics are calculated once a year, starting from 2009, and cover all sectors and their subsectors, excluding the agricultural sector.

In this study, the value-added index per employee (one of the annual productivity statistics), was used to establish a relationship with informality. The value-added index per employee, calculated for the main sectors (2010=100), is shown in Figure 9.11. From 2015 to 2020, productivity values increased in the industry, construction, and service sectors. The sector with the highest increase was the industry sector, followed by the construction sector. Additionally, the construction sector reached its peak (174) in 2019, but experienced a significant decrease in 2020. Overall, Türkiye observed an average annual productivity increase of 4.4% for the 2015–20 period with the service sector remaining below this value.

³ The Official Statistics Program (RIP) provides five-year periods based on the Turkish Statistical Law No. 5429 in order to determine the basic principles and standards regarding the production and publication of official statistics, and to ensure the production of up-to-date, reliable, timely, transparent, and impartial data in the fields needed at the national and international levels.

FIGURE 9.11

VALUE-ADDED INDEX PER EMPLOYEE IN 2015–20

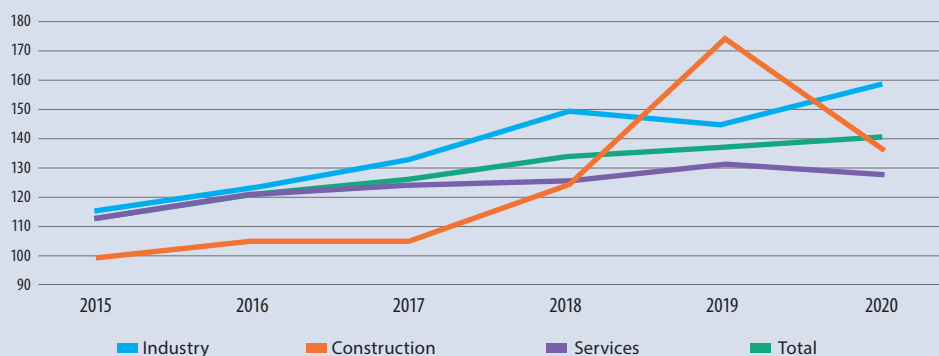


Figure 9.12 shows the value-added index values per employee for the subsectors of the manufacturing industry. The manufacturing sector of other transportation vehicles has the highest value. This sector was followed by the manufacture of computer and electronic products and the manufacture of pharmaceutical products. Conversely, the lowest value went to furniture manufacturing. The index values of the tobacco and petroleum products manufacturing sectors were not calculated due to insufficient sample size.

FIGURE 9.12

VALUE-ADDED INDEX PER EMPLOYEE IN MANUFACTURING SECTORS IN 2015–20

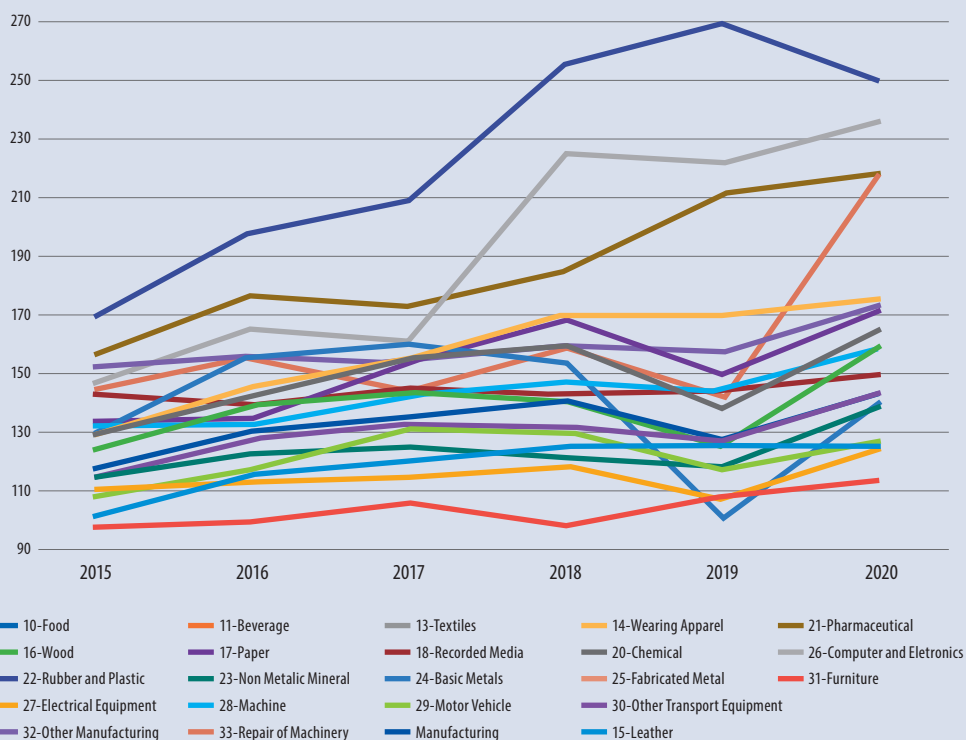


Table 9.2 also illustrates the annual productivity changes for the main sectors and subsectors of the manufacturing industry, along with the average productivity changes between 2015–20. Accordingly, it revealed that while the average productivity increase in Türkiye between the 2015–20 period is 4.4%, it was 6.9% in the industry sector, 6.5% in the construction sector, and 2.1% in the service sector.

When the manufacturing industry was analyzed, the average annual productivity growth was at 3.9%. The subsector with the highest increase was the manufacturing of computer and electronic products at 9.9%, followed by machinery equipment installation and repair, and the manufacture of other transportation vehicles. However, the beverage sector was the exception with negative growth, experiencing an average annual productivity decrease of 2.7%.

TABLE 9.2

ANNUAL AND AVERAGE PRODUCTIVITY CHANGE (%)

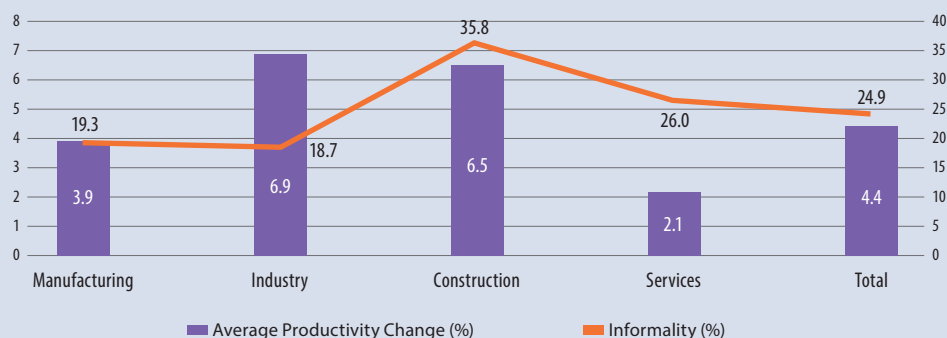
Sector	2015–2016 Change	2016–2017 Change	2017–2018 Change	2018–2019 Change	2019–2020 Change	Average
10-Food	14.3	4.1	3.8	0.4	-0.6	4.3
11-Beverage	-0.9	4.5	-2.1	-2.5	-11.7	-2.7
13-Textiles	6.6	1.8	4.5	-8.4	12.8	3.2
14-Wearing Apparel	12.2	7.2	9.4	-0.4	3.6	6.3
15-Leather	14.6	3.9	-2.0	7.8	-10.5	2.4
16-Wood	11.9	3.1	-1.7	-11.4	27.6	5.1
17-Paper	0.7	13.8	9.5	-10.9	14.3	5.0
18-Recorded Media	-1.9	3.5	-1.6	1.2	3.4	0.9
20-Chemical	9.9	9.4	2.3	-12.8	18.3	4.9
21-Pharmaceutical	12.9	-2.0	7.2	13.9	3.1	6.8
22-Rubber and Plastic	10.1	3.8	-0.4	-3.3	12.4	4.4
23-Nonmetallic Mineral	7.2	1.7	-2.5	-3.5	17.5	3.8
24-Basic Metals	20.4	1.5	-3.4	-34.4	38.8	1.5
25-Fabricated Metal	7.7	0.8	0.3	0.4	9.5	3.7
26-Computer and Eletronics	12.0	-2.5	39.6	-1.1	6.2	9.9
27-Electrical Equipment	3.0	2.2	2.0	-8.5	15.3	2.6
28-Machine	0.4	7.3	3.7	-2.6	10.7	3.8
29-Motor Vehicle	8.4	11.8	-0.8	-9.9	8.1	3.2
30-Other Transport Equipment	16.5	5.3	22.1	5.4	-7.2	7.9
31-Furniture	2.0	6.0	-6.6	9.9	4.4	3.0
32-Other Manufacturing	2.6	-1.7	3.8	-1.4	10.6	2.7
33-Repair of Machinery and	7.4	-7.3	9.9	-10.3	53.9	8.6
Manufacturing	10.1	4.0	3.5	-8.2	11.0	3.9
Industry	9.3	7.9	11.9	-3.0	9.2	6.9
Construction	4.8	0.8	18.4	39.6	-21.6	6.5
Services	5.3	2.6	0.9	4.5	-2.5	2.1
Total	6.9	4.2	6.1	2.6	2.2	4.4

In Figure 9.13, the average productivity changes of the main sectors for the period 2015–20 with the five-year informality rate for the years 2016–20 are compared. Excluding agriculture, the overall five-year informality rate was 24.9% while the average annual productivity growth was 4.4%. The construction sector with the highest informality rate showed an average growth rate of around 6.5%.

While the industry sector grew by an average of 6.9% each year with 18.7% informality, the service sector grew by an average of 2.1% each year with an informality of 26%.

FIGURE 9.13

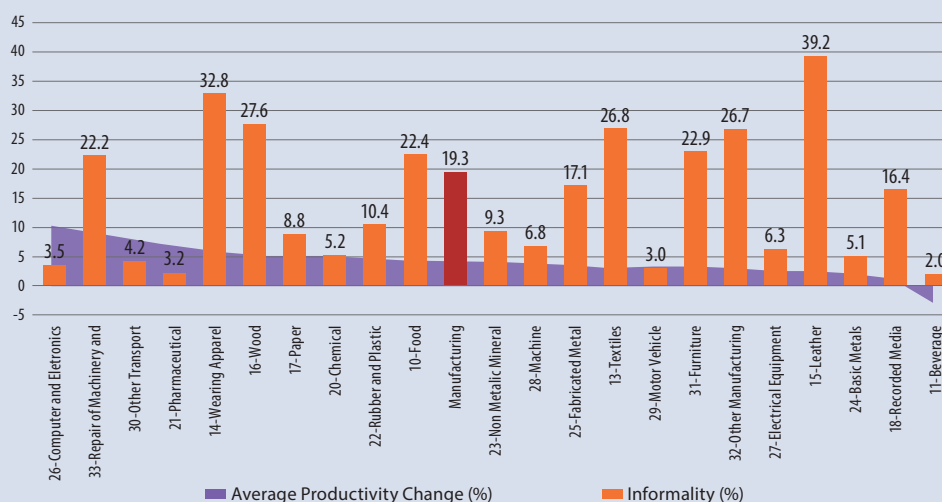
AVERAGE PRODUCTIVITY CHANGE AND INFORMALITY RATES (%)



The average annual productivity growth and five-year informality rates of the manufacturing industry subsectors between 2015 and 2020 are shown in Figure 9.14. The average productivity of the leather sector, which has the highest informality, grew by 2.4% annually. The garment and wood products manufacturing sectors, also with high informality, outperformed the manufacturing industry. Conversely, computer and electronic products, other transportation vehicles, and pharmaceuticals manufacturing sectors, which were among the sectors with the lowest informality, were in the top four in average annual productivity growth. The machinery equipment installation and repair sector also ranked in the top four. However, the basic metal sector, which grew by 38.8% in the 2019–20 period, showed an average growth of 1.5% due to the loss of productivity in other sector.

FIGURE 9.14

AVERAGE PRODUCTIVITY CHANGE AND INFORMALITY RATES IN MANUFACTURING SECTORS (%)



In addition to productivity statistics, data on wages per hour worked were compiled using HLFS data. Figure 9.15 charts the wage per hour worked for the period 2016–21⁴, showing a decline in both formal and informal sectors over the years. While the wage per hour worked in the formal sector was USD2.92 in 2016, this value decreased to USD2.11 in 2021. Similarly, in the informal sector, this value decreased from USD1.71 in 2016 to USD1.11 in 2021. Notably, wages in the formal sector remained consistently higher than in the informal sector across all years.

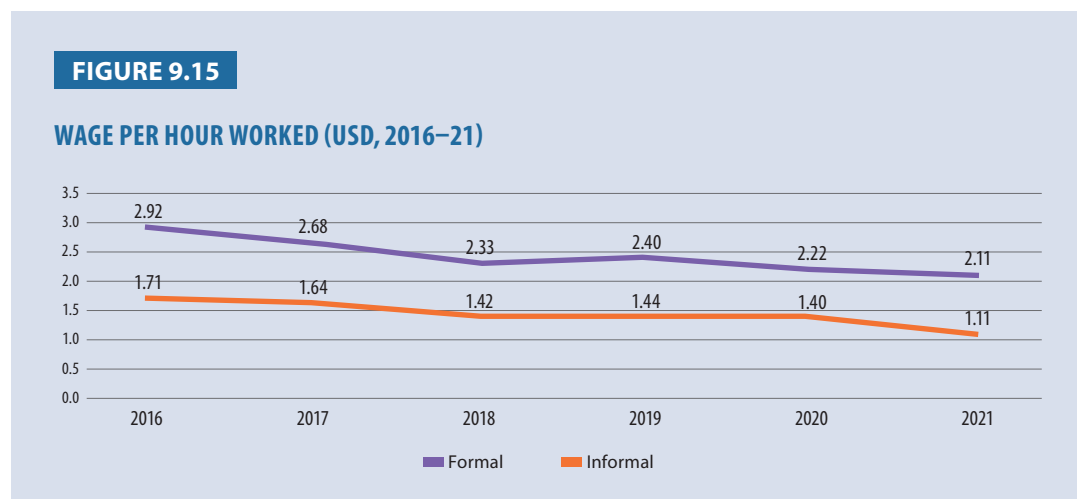


Figure 9.16 provides wage data per hour worked at the sectoral level. The manufacturing industry has the highest value (USD2.16) in the formal sector while the construction industry has the highest value (USD1.38) in the informal sector. Similar to the overall level, wages per hour worked in the formal sector were higher than the informal sector in the industry, construction, and service sectors. The industry sector showed the highest difference while the construction sector displayed the lowest.

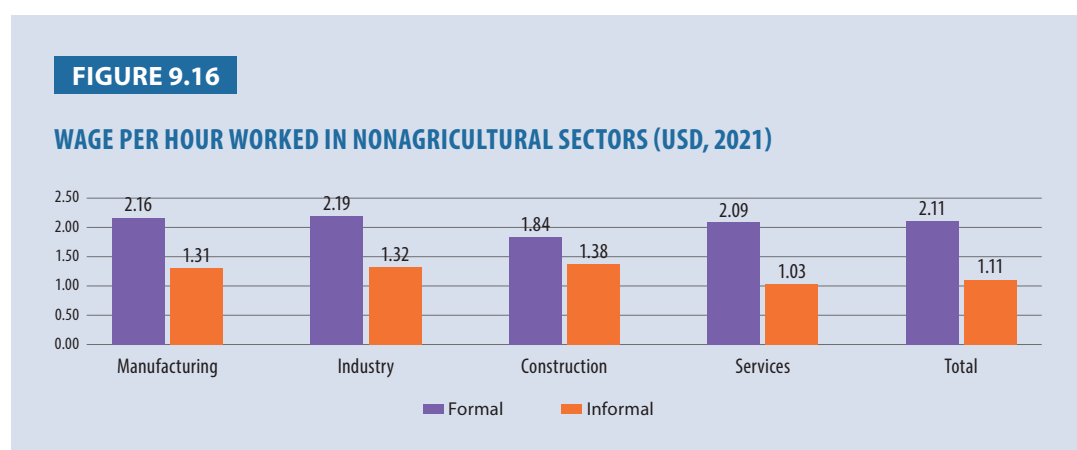


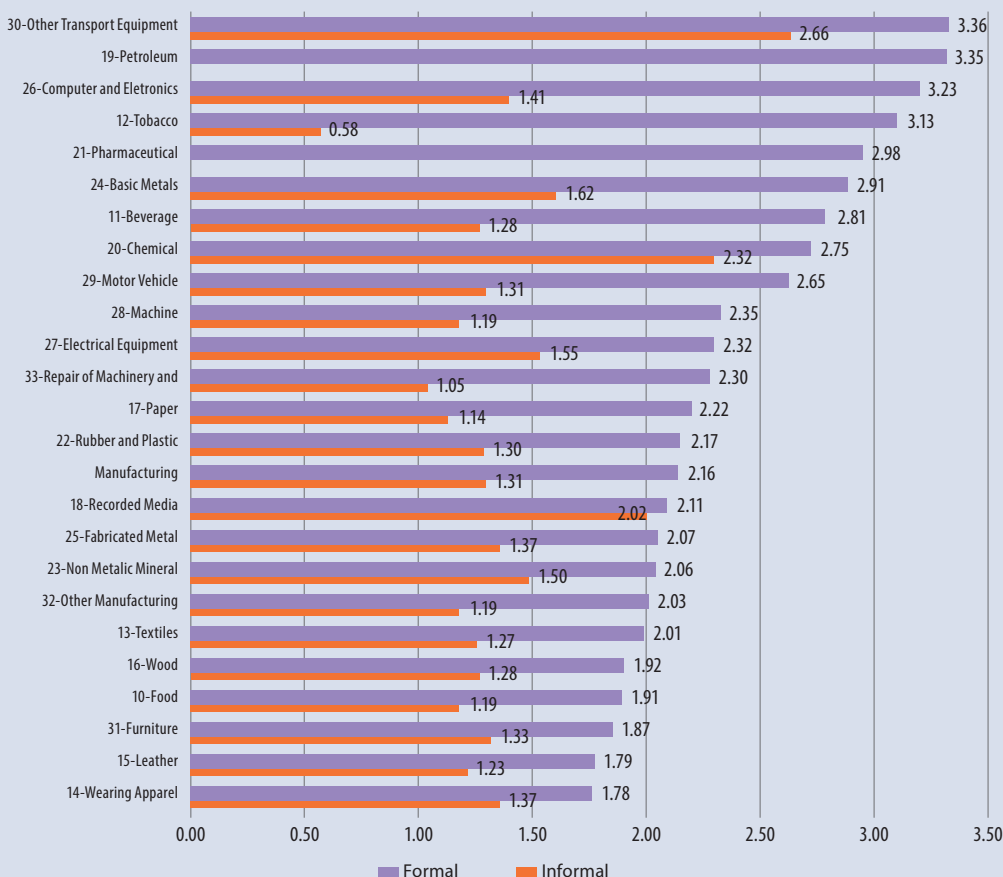
Figure 9.17 focuses on the subsectors of the manufacturing industry. The manufacturing sector of other transportation vehicles presented the highest value in the formal sector, followed by petroleum production and the manufacture of computer and electronic products. In contrast, the lowest values were seen in the ready-made clothing, leather, and furniture sectors. Notably, the formal sector tends to pay its employees more per hour worked than the informal sector across the subsectors of the

⁴ The average dollar rate for the years 2016, 2017, 2018, 2019, 2020, and 2021 is TRY3,027, TRY3,655, TRY4,824, TRY5,682, TRY7,023, and TRY8,927, respectively.

manufacturing industry. In addition, the highest difference in wages per hour worked in the formal and informal sectors was observed in the tobacco products.

FIGURE 9.17

WAGE PER HOUR WORKED IN MANUFACTURING SECTORS (USD, 2021)



CONCLUSION

In developing countries such as Türkiye, unregistered employment presents a significant challenge in the labor market due to factors, such as inequality of income distribution, poverty, increase in labor costs, high unemployment rates, excessive bureaucratic procedures, and ineffective supervision. Encouraging formal employment through necessary investments and incentives for employment can help reduce the informal economy. Financial, economical, and social motivation through employment is beneficial for the social welfare of citizens, making it essential for underdeveloped countries to aim at reducing the informal economy to levels comparable to developed nations. In other words, although it is impossible to completely eliminate the informal economy, taking measures to reduce it to reasonable levels is crucial for sustainable economic growth.

Disruptions in the labor market, which is one of the important factors in the development of the informal sector, contribute to the growth of the informal sector. High insurance premiums and tax rates in the labor market act as driving forces for employers to engage in unregistered employment. It is important

to reform the institutions that hinder the establishment of market wages in the labor market as it is a vital step in tackling informality. Unions also need to review their positions and policies to alleviate the burdens on wages and encourage formal economic incentives.

The Turkish HLFs served as the primary source for investigating the dynamics of informality in Türkiye. In the study, informality information for the years 2016–21 was analyzed, compiled, and published by the Turkish Statistical Institute at a micro basis. The Household Labor Force Questionnaire, which was designed as repetitive cross-sectional data, covered a substantial sample size of approximately 400,000 people aged 15 and above annually. This dataset included a rich set of variables related to the workforce, professions, industry branches, and especially, at the regional levels.

In this study, the Microdata of the Household Labor Force Survey on informality for the period 2016–21 was analyzed to understand informality trends. Informality has decreased from 38% to 34% in the last five years and has been on a downward trend since 2019. When the types of firms were examined, it revealed that micro-sized firms had a higher rate of informality. From the regional aspect, it has been determined that informality decreased from east to west. While the Istanbul region had the lowest informality, Ağrı and Mardin regions exhibited higher informality rates.

When the main sectors were analyzed, the lowest informality was in the industry sector. This was followed closely by the service sector, which constituted almost half of the total number of employees. In the subsectors of the manufacturing industry, informality was higher in low-technology sectors. When considering gender and age, informality was lower in men with the propensity to increase with age after 30 for both genders. Regional differences were clearly evident in employee wages. The average wage of a registered employee was 1.8 times higher than the wage of an informal workers. While comparing paid out wages by sectors, the industrial sector had the highest value. The agricultural sector with the highest informality paid the lowest wages to its employees compared to the service sector.

In the study, a comparison of productivity and informality was also made, focusing on the value added per employee as annual productivity statistics for the 2015–20 period. The industrial sector had the highest value in this regard, followed by the construction and service sectors. Analyzing the subsectors of the manufacturing industry revealed that the high-tech sectors, such as other transportation equipment, computer and electronics, and pharmaceutical had higher index values. On the other hand, the furniture sector had the lowest ranking while just one step above it was the electrical equipment manufacturing sector, which was identified as medium-high technology.

When productivity and informality were compared, it was evident that the industrial sector had the lowest informality rate with 18.7% and the highest average productivity change with 6.9%. In Türkiye, where the overall informality was around 25%, both industry and manufacturing fell below this value. The construction sector with the highest informality with 35.8%, displayed the highest productivity growth after industry. However, the service sector emerged as the least performing sector with an average annual growth of 2.1%.

Examining the subsectors of the manufacturing industry highlighted a higher productivity change in the high-tech sectors. The computer and electronic sector had the highest average productivity growth, followed by the repair of machinery, other transportation equipment, and pharmaceutical sectors. Notably, the wearing apparel and wood sectors also increased their productivity despite a high level of informality. The chemical, rubber, and plastic, and food sectors showed an average productivity change above that of the manufacturing industry.

Finally, the wage per hour worked was examined for the period 2016–21. The value of wages per hour worked in the formal sector consistently exceeded those in the informal sector every year. When the difference between registered and unregistered sectors was analyzed on the basis of this value, the

industry sector had the highest difference while the lowest was the construction sector. This pattern persisted in the subsectors of the manufacturing industry. When each subsector was analyzed, the wage value per hour worked was higher than the informal sector.

CHAPTER 10

VIETNAM

EXECUTIVE SUMMARY

Vietnam's informal economy plays a crucial role in job creation and income generation, particularly in rural areas. The informal sector, accounting for around 30% of the country's GDP, includes activities that are concealed to avoid taxes, social insurance obligations, and government regulations. The government has made efforts to formalize the sector, but progress has been limited due to the impact of the COVID-19 pandemic. In 2021, Vietnam had 33.6 million informal workers, comprising 68.5% of the total workforce. Rural areas face greater vulnerability with a higher rate of informal employment. Informal workers often face unfavorable working conditions and lack access to social welfare and insurance benefits.

Vietnam is working to formalize its informal workforce through various initiatives. The government has adopted the ICLS 194 standard to record labor statistics, including workers in the agricultural sector. The criteria for identifying informal workers are based on a number of factors, such as the nature of the employer, working status, labor contracts, and social insurance premiums. To improve productivity, the government has launched a national program to support enterprises in enhancing productivity and product quality. Expansion of social insurance coverage is another priority with the aim of including workers in the informal sector. Vietnam also aims to increase the proportion of high-skill jobs to achieve its economic goals. Direct support programs have been implemented, including cash assistance to the general workforce and targeted assistance to disadvantaged sectors.

The informal sector in Vietnam poses challenges to stable employment conditions and recommendations have been proposed to address this issue. The recommendations include improving the business economy by attracting foreign investment and promoting high-tech industries. Completing and enforcing laws and institutions, such as social and health insurance, can enhance social protection. Digital transformation can reduce the informal sector by improving transparency, access to financial services, and simplifying business registration. Training programs can enhance skills, empower entrepreneurs, promote compliance with labor laws, and provide technical expertise. Statistics can provide insights, identify areas for improvement, evaluate interventions, and aid in planning for the future. Financial support programs and policies can enhance financial inclusion and incentivize formalization. One Commune One Product (OCOP) program and agriculture digitalization will improve the rural sector to create demand for formal workforces. Public relations and communication efforts can raise awareness, foster trust, promote the benefits of formalization, and encourage compliance with labor laws and regulations.

OVERVIEW OF INFORMAL ECONOMY IN VIETNAM

Vietnam is currently experiencing a crucial period of economic development, following the COVID-19 pandemic. The country is positioned favorably for sustainable growth due to several positive factors. One of the key contributors to this growth is the golden population period, characterized by a working-age population that is twice as large as the nonworking age population. Each year, a significant portion

of the working-age population enters the labor market, contributing to the economy at a relatively high rate of around 75% [1]. However, it is important to address various significant issues pertaining to the labor force, such as vulnerable jobs, low social insurance rate, and no formal labor contract or without labor contracts. These trends belong to the arising informal economy and workforce.

In Vietnam, a developing country with a significant population of almost 98.2 million in 2022, the informal workforce plays a crucial role in job creation and income generation within society. While it is important to acknowledge the negative aspects associated with informal employment, it is equally essential to recognize the significant contributions made by the informal sector to both the economy and the labor market. The informal workforce provides livelihood opportunities for thousands of individuals who have limited alternatives for earning a living. These workers often find themselves compelled to accept unfavorable working conditions, unfair payment practices, and a lack of access to social welfare and insurance benefits.

Over the years, the Vietnamese government has recognized the significance of the informal sector and has made continuous efforts to enhance its status. However, it is noteworthy that the outcomes of these formalization endeavors have been relatively limited, particularly during the past two years, 2020–21, primarily due to the profound impact of the COVID-19 pandemic.

VIETNAMESE GOVERNMENT'S INFORMAL ECONOMY APPROACH

In Vietnam, the statistics pertaining to the informal economy are not accurately measured. Various international economic and financial organizations have conducted estimations that highlighted the substantial contribution of the informal economic sector. It is believed that if the output of the informal sector were properly calculated, it could potentially increase the country's GDP by approximately 30%. The General Statistics Office (GSO), which operates under the Ministry of Planning and Investment, has also arrived at a similar estimation, indicating that the informal sector accounts for around 30% of the country's GDP [2].

In the statistical report of the Informal Economic Sector published by the GSO, an agency under the Ministry of Planning and Investment, five conditions were proposed to provide clarity on the concept of the informal economy [3]. They are:

- i) GSO defines the informal economy as encompassing underground economic activities. These activities are considered legitimate economic activities but they are deliberately concealed to evade tax payments, such as income tax and VAT as well as to avoid fulfilling social insurance obligations and complying with government regulations. Informal businesses often attempt to avoid legal and administrative procedures as well as financial and statistical reporting requirements, pertaining to aspects, like minimum wages, maximum working hours, and health conditions for employees.
- ii) It is important to note that the concept of the informal economy, as defined in the statistical report by the GSO, excludes illegal economic activities. This category encompasses economic activities that are explicitly prohibited by law, such as the manufacturing and distribution of illicit drugs, engaging in prostitution, or involvement in human trafficking, among others. These activities fall outside the scope of the informal sector.
- iii) The report emphasizes that the informal economy includes production and business units engaged in the creation of goods and services with the primary objective of generating jobs and income for those involved in such economic activities.

- iv) The report includes household economic activities, which encompass self-production and self-consumption by households. These activities include the production of goods for personal consumption and accumulation within the household, such as cultivating crops, raising animals, and creating other material products to meet the needs of the household. Additionally, household economic activities include the construction of residential homes, self-repairing and maintenance tasks, accumulation of fixed assets, and other similar activities. It should be noted that some activities for daily life (such as cooking rice, cleaning the house, washing clothes), performed by hiring outsiders, are counted as informal economic activities.
- v) The data collection program fails to capture certain economic activities, thereby omitting crucial information. These neglected activities encompass various sectors that are meant to be included in the data collection process. Moreover, there is a significant presence of informal economic activities, such as individuals engaged in handicraft production, providing small-scale services, street vending, shoe shining, operating motorbike taxis, selling lottery tickets, managing sidewalk restaurants (commonly known as sidewalk businesses), undertaking domestic help services, tutoring, car wash services, and car repairs.

In 2021, Vietnam had 33.6 million informal workers, comprising 68.5% of the total workforce. Although this rate is relatively lower than that of neighboring countries, such as Cambodia, Indonesia, and Myanmar, it remains significantly high on a global scale. These informal workers are not solely confined to the informal sector but also contribute in substantial numbers to the formal sector. In the same year, approximately six million formal workers in Vietnam transitioned to individual businesses and private enterprises, accounting for 47.8% and 36.9%, respectively. This factor is important when examining the interplay between the formal and informal sectors in the regulatory framework of Vietnam's economy [1].

TABLE 10.1

ANNUAL INFORMAL SECTOR BY AREA IN 2017–21

Number	2017* ('000)	2018* ('000)	2019* ('000)	2020* ('000)	2021 ('000)
Nation	33,541.1	33,252.1	34,778.5	34,121.3	33,632.3
Northern midlands and mountains	3,412.7	3,362.0	4,365.0	4,177.4	4,244.3
Red River Delta	7,142.4	7,124.7	6,944.4	6,922.4	6,779.3
North central and central coast	7,276.0	7,339.1	8,171.5	7,880.9	7,695.4
Central highlands	2,764.1	2,855.9	2,882.7	2,845.1	3,020.4
South-east	4,894.2	4,703.7	4,615.5	4,621.9	4,596.5
Mekong River Delta	8,051.7	7,866.6	7,799.4	7,673.5	7,296.5

Source: GSO [1].

Note: Data for 2017–20 adjusted by the International Conference of Labour Statistician (ICLS) 19 Standards.

Rural areas in Vietnam face greater vulnerability compared to urban areas, primarily due to the significant presence of informal workers. Approximately 75% of Vietnam's informal workforce reside in rural areas, resulting in a substantially higher rate of informal employment compared to urban regions, standing at 77.9% compared to 52%. As of 2021, an alarming number of 42 out of 63 provinces and cities directly under the central government reported that the informal employment rate surpassed 70%. In some provinces, this rate exceeds 80%, as observed in 26 provinces. Provinces that exhibit a high percentage of poor households and a significant proportion of workers involved in the agricultural sector tend to experience a higher prevalence of informal workers. In contrast, developed provinces characterized by a concentration of industrial parks and export processing zones, where the agricultural workforce is

relatively small, exhibit lower rates of informal employment. These findings highlight the relationship between economic development, occupational diversity, and the prevalence of informal employment in Vietnam's provinces [1].

TABLE 10.2**INFORMAL WORKFORCE OCCUPATIONS**

	Total (‘000)	Formal (‘000)	Informal (‘000)
Total	49,072.0	15,439.7	33,632.3
Leader	478.5	451.3	27.2
High-skill level	3,595.7	3,270.5	325.2
Middle-skill level	1,634.7	1,337.2	297.5
Staff	1,126.7	807.1	319.5
Individual services - security officer and sales employee	9,300.7	2,242.1	7,058.6
Skilled workforce in agriculture and seafood	5,993.7	97.3	5,896.4
Artisan	7,139.9	1,526.7	5,613.2
Assembler-operator	6,928.5	4,722.4	2,206.0
Basic occupation	12,628.9	751.0	11,877.9
Others	244.8	234.0	10.8

Source: GSO [1].

Informal employment, often characterized as precarious and unstable, is still a choice made by many workers who remain in these positions for extended periods. Remarkably, 41.1% of informal workers have persevered in such unpredictable roles for three to nine years while 39.1% have dedicated nine years or more. The lack of sufficient technical qualifications may be a hindrance for these workers in transitioning to different jobs, despite the fact that their income frequently fails to provide the minimum standards for a decent livelihood [4].

Compared to countries in the region and around the world, the current labor productivity in Vietnam is not high. As of 2022, Vietnam's labor productivity reached VND188 million per worker, equivalent to about USD8,000 per worker. The growth rate compared to the same period last year is 4.81%. However, that growth rate is still significantly lower than the actual labor productivity in Vietnam, which is only 11.3% compared to Singapore, 23% compared to the ROK, 33% compared to Malaysia, 60% compared to PR China, and 86.5% compared to the Philippines [5].

The Macroeconomic Report for the first quarter of 2016 by the Central Institute for Economic Management (CIEM) revealed that by the end of 2015, nearly 70% of the workforce in Vietnam was engaged in informal employment. It is estimated that the labor productivity in the informal sector is only half of the average labor productivity in the formal sector, which contributes to the overall low labor productivity in the economy [6].

Even within the business sector, there is disparity in labor productivity among different types of enterprises. It can be estimated that the labor productivity of workers in individual business is only about 70% of that in medium and large enterprises [6].

VIETNAM'S WORKFORCE FORMALIZATION IMPLEMENTATION

Vietnam is currently experiencing its golden population period as the workforce labor is twice the size of nonworking-age population. Each year, a significant proportion of the population enters the labor market, primarily comprising individuals of working age. However, it is important to note that a considerable number of workers in Vietnam are still engaged in vulnerable employment, lacking social insurance, and work without formal labor contracts. This phenomenon can be described as informal work.

In light of this, the Vietnamese government has been actively undertaking initiatives to enhance the informal sector, aiming to foster economic development, formalize the sector, elevate living standards, and create dignified employment opportunities. The government's approaches and efforts toward achieving these goals are outlined in the following section.

Classifying Informal Sector

Before 2021, Vietnam applied the ICLS 13 standard to calculate labor and employment statistics. The recorded informal workforce numbers during this period did not take into account labor numbers in the agricultural, forestry, and fishery sector, as stipulated in paragraph 16 of ICLS 153.

Starting from 2021, Vietnam has officially applied the ICLS 194 standard to record and publish labor statistics. The implementation aim is to include the agricultural, forestry, and fishery worker numbers in calculation and observation. This action is a new step for Vietnam to fulfill the development goal of "leaving no one behind".

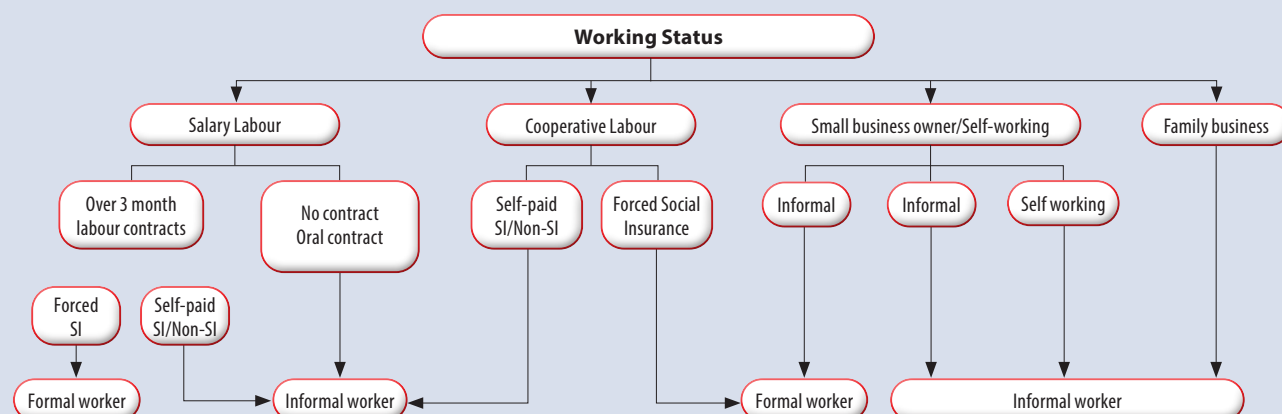
The criteria for identifying informal workers in Vietnam are based on the following factors:

- The nature of the business entity where the workers are employed, which can be classified as either formal sector, informal sector, or household sector
- The working status of the individual
- The type of labor contract that the employee signs or agrees upon with the employer
- The employment status in terms of whether the employer pays social insurance premiums

The process of determining informal workers involves the following steps:

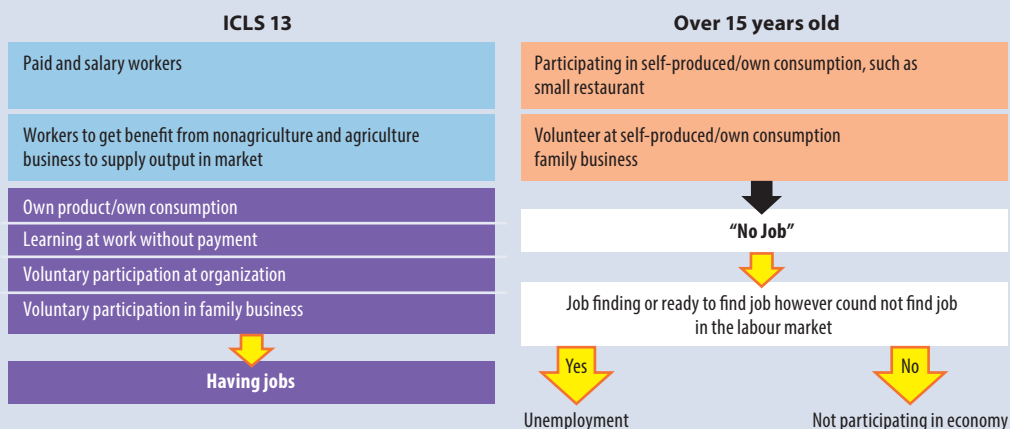
Step 1: Determine the workplace of the workers based on the ICLS 19 standards, categorizing it as either the formal sector, informal sector, or household sector.

Step 2: Identify informal workers based on their working status.

FIGURE 10.1**WORKING STATUS CLASSIFICATION**

Source: GSO [1].

Note: SI - Social insurance.

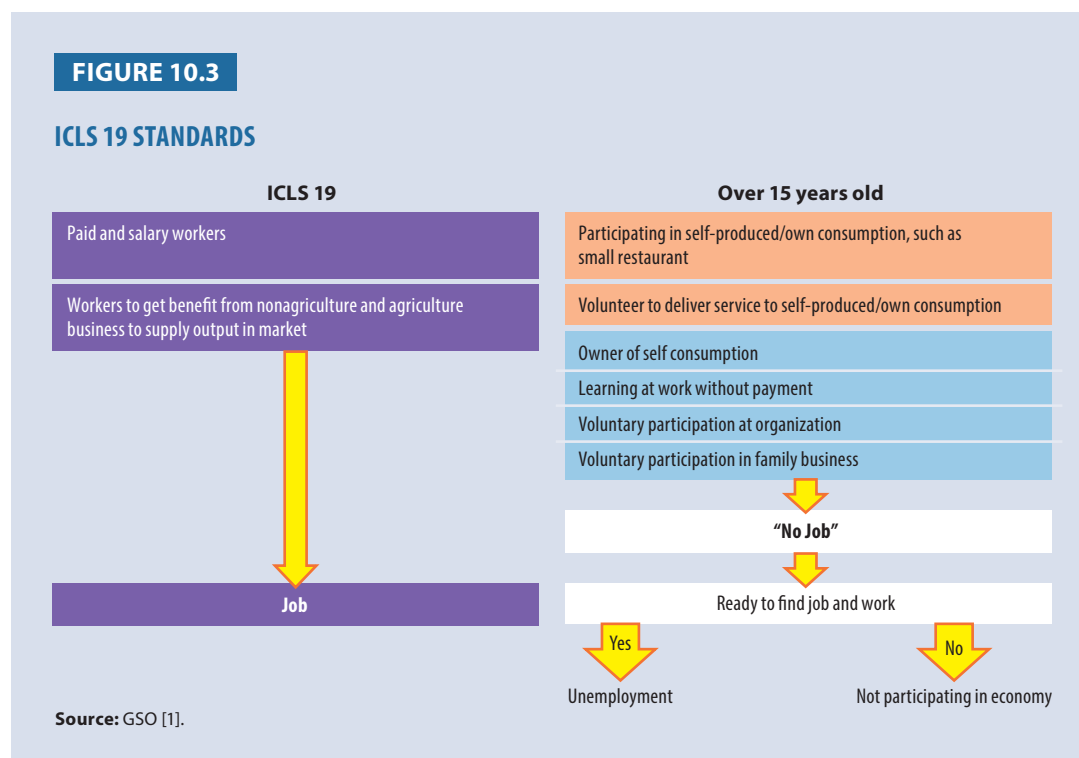
FIGURE 10.2**ICLS 13 STANDARDS**

Source: GSO [1].

National Productivity Program

Informal workers typically engage in uncomplicated tasks that don't demand much skill or technical expertise. The majority, around 35.3%, are employed in simple occupations, making it the largest occupational category. Unfortunately, this situation contributes to low labor productivity and diminishes income levels [1]. To address this issue, the prime minister has issued Decision No. 1322/QĐ-TTg, approving a national program aimed at supporting enterprises in enhancing productivity and product quality between 2021 and 2030 [7].

The program is designed with the shared objective of assisting businesses in enhancing productivity and the quality of their products and goods. It is built on the principles of implementing standardized solutions, technical regulations, and management systems while also leveraging on tools to improve productivity and quality. The program aims to increase the contribution of total factor productivity (TFP) to economic growth and enhance the economy's productivity, quality, efficiency, and competitiveness.



Social and Health Insurance

According to Minister of Labour, Invalids, and Social Affairs Dao Ngoc Dung, the social insurance sector in Vietnam faces numerous challenges that need to be addressed in order to promote sustainable development of the country's workforce. One of the most crucial issues is the expansion of social insurance coverage.

In 2021, approximately 1.45 million individuals voluntarily participated in social insurance, indicating a growth rate of about 28.92%, or over 325,000 people, compared to 2020. However, this accomplishment only represents 3.2% of the total informal labor force within the eligible age range. This statistic highlights the need to prioritize the study of regulations for mandatory social insurance participation among workers in the informal sector who work without labor contracts. By implementing compulsory participation, Vietnam can ensure that nobody is excluded from the nation's social security system [8].

Labor Force Market Improvement

Labor productivity growth is, to a certain extent, based upon the development of human resources. In Vietnam, the proportion of high-skill jobs within the overall employment stands at approximately 12%. In order to achieve their goal of attaining high-middle-income status by 2030, Vietnam aims to double the current number of high-skill jobs. Notably, the demand for high-skill jobs is expanding at a rate that is three times faster than the overall job market growth [9].

Vietnam issued Resolution No. 06/NQ-CP on 10 January 2023 with the aim of developing a flexible, modern, efficient, sustainable, and integrated labor market to expedite economic recovery. The resolution sets forth clear objectives to be achieved by 2025 as follows [10]:

- Proportion of agricultural workforce is about 25%
- Average growth rate of productivity is over 6.5%/year
- Rate of trained workers with degrees and certificates is 30%
- Retraining and regular training to be provided for about 25% of the workforce
- Maintaining the general unemployment rate at a low level of less than 3%; the unemployment rate in urban areas below 4%
- Urban youth unemployment rate is low, at less than 7%, the rural youth underemployment rate is to be below 6%
- Proportion of the labor force participating in social insurance reaches 45%, of which farmers and informal sector workers participating in voluntary social insurance account for about 2.5% of the labor force in the country while 35% of the labor force are within age range groups participate in unemployment insurance
- The index of satisfaction of social insurance participants reaches 85%

Direct Support for Informal Sector

Vietnam has implemented direct support programs for the informal sector, providing cash assistance to the general workforce and specifically targeting disadvantaged sectors.

In response to the adverse effects of the COVID-19 pandemic on employees and businesses, the government of Vietnam issued Resolution No. 42/NQ-CP and Decision No. 15/QĐ-TTg on 9 April 2020. These measures were implemented to roll out a support package of almost VND62 trillion, aimed at assisting the workforce labor.

According to the 2021 report by the Ministry of Labor, Invalids, and Social Affairs, the central government and local authorities have allocated a total of VND71.482 trillion to implement support policies for approximately 742,000 employers with a budget of VND13.033 trillion. These policies in turn have benefitted over 42.8 million employees and other individuals with an expenditure of VND58.449 trillion.

The most notable support programs include Resolution No. 68/NQ-CP, which encompasses various policies aimed at assisting employees and employers who are encountering challenges stemming from the COVID-19 pandemic, and Resolution No. 116, which focuses on providing support to affected employees and employers through the Unemployment Insurance Fund [11].

TABLE 10.3

WORKFORCE LABOR BY SECTORS IN 2021

Sectors	Nation ('000)			Urban ('000)			Rural ('000)		
	Total	Formal	Informal	Total	Formal	Informal	Total	Formal	Informal
Total	49,072.0	15,439.7	33,632.3	17,766.7	8,528.5	9,238.3	31,305.3	6,911.2	24,394.0
Agriculture and seafood	14,262.3	169.9	14,092.4	1,479.3	41.9	1,437.4	12,783.0	128.0	12,655.0
Mining	175.1	118.1	57.0	103.2	87.0	16.2	71.9	31.2	40.8
Processing	11,209.1	6,772.2	4,436.9	4,260.4	2,924.3	1,336.1	6,948.7	3,848.0	3,100.7
Electricity, water, and liquid gas	151.4	119.5	31.9	91.6	82.3	9.4	59.8	37.2	22.6
Waste processing	169.0	102.6	66.3	95.5	68.7	26.8	73.5	34.0	39.5
Construction	4,545.2	403.5	4,141.7	1,319.1	279.9	1,039.2	3,226.1	123.6	3,102.5
Car and motorbike whole/retail and repair	7,203.9	2,020.7	5,183.3	3,571.1	1,342.1	2,229.0	3,632.8	678.6	2,954.2
Warehouse and distribution	1,856.5	638.1	1,218.4	1,085.0	450.7	634.3	771.4	187.3	584.1
Food and hotel	2,493.4	401.7	2,091.7	1,538.1	294.5	1,243.6	955.3	107.2	848.1
PR and communication	284.6	240.5	44.2	219.4	194.7	24.7	65.2	45.8	19.4
Banking and insurance	484.6	402.9	81.7	393.8	342.1	51.7	90.8	60.8	30.0
Real estates	308.2	142.3	166.0	239.8	116.9	123.0	68.4	25.4	43.0
Tech and science	311.9	210.4	101.5	240.2	169.4	70.8	71.7	41.0	30.7
Admin and business services support	329.9	170.9	159.0	216.8	127.5	89.3	113.1	43.4	69.6
Communism-political organization	1,372.6	1,151.8	220.8	798.2	714.5	83.7	574.3	437.3	137.1
Education and training	1,861.1	1,634.3	226.8	957.7	823.5	134.2	903.4	810.8	92.6
Healthcare and social services	597.9	510.4	87.5	367.1	317.8	49.2	230.8	192.5	38.2
Entertainment services	267.5	79.7	187.8	147.3	52.9	94.4	120.2	26.8	93.4
Other services	1,007.4	145.7	861.7	539.1	94.3	444.8	468.3	51.4	416.9
Household services	177.0	1.5	175.5	100.9	1.0	100.0	76.1	0.5	75.5
International organization	3.4	3.0	0.4	3.0	2.7	0.3	0.4	0.4	0.1

Source: GSO [1].

VIETNAM'S INFORMAL PRODUCTIVITY ANALYSIS

Thanh Hoa Province Informal Workforce Analysis

Thanh Hoa is the province with the third-largest population in the country, followed by Ho Chi Minh City and the capital, Hanoi. The province has a high labor force participation rate of 82.68%. In 2018, Thanh Hoa had a total of 2.167 million employed workers, out of which 891,100 were classified as informal workers, comprising 41.1% of the total employed labor force. Among the informal workers, 467,400 individuals were engaged in the formal sector, accounting for 52.5% of the total number of informal workers while the remaining 423,700 individuals were involved in the informal sector, making up 47.5% of the total informal workforce [12].

The majority of informal workers in Thanh Hoa lack technical qualifications. According to the calculated results from 2018, there were 736,500 informal workers without technical qualifications, which accounted for 82.7% of the total number of informal employees [12].

The majority of informal workers in Thanh Hoa are self-employed in several industries, including: (i) construction; (ii) wholesale and retail; (iii) car, motorcycle, and motorbike repair; (iv) manufacturing and processing; and (v) accommodation and food services.

A significant percentage of Thanh Hoa's informal workers fall in the category of handy and related works. In 2018, approximately 35% of informal workers were handymen and engaged in similar occupations. Around 32% of informal workers were involved in personal services, security, and sales while 19% were employed in simple jobs. The remaining workers pursued various other occupation [12].

In terms of income, the average monthly earnings for informal workers in 2018 amounted to VND4.08 million. Among them, informal workers in the formal sector earned around VND5.353 million per month while those in the informal sector earned VND4.295 million per month, which was lower by VND1.058 million compared to their formal sector counterparts [12].

On working hours, informal workers in Thanh Hoa worked an average of 52.06 hours per week while those in the informal sector worked slightly fewer hours at 50.29 hours per week in 2018 [12].

Informal Causes in Vietnam

A number of reasons contribute to informal employment in Vietnam.

i) Migration from rural to urban areas

According to the World Bank's assessment, Vietnam has one of the highest urbanization rates in Southeast Asia. In 1986, approximately 19% of Vietnam's population resided in urban areas, and by 2013, this figure had surged to nearly 34%. In 2019, the population of Hanoi was approximately 8 million people while Ho Chi Minh City boasted a population of over 10 million people [13].

On average, Ho Chi Minh City experiences an annual increase of approximately 200,000 officially registered residents. From 2012 to 2016, the city witnessed a notable surge of 850,000 individuals, with two-thirds of this population growth attributed to immigrants from other regions. Projections indicate that by 2025, the city's population will surpass 10 million people (excluding temporary residents), and there is even the possibility of reaching a staggering 15 million people within the next 20 years [13].

Migrant workers are drawn to the city to engage in low-skilled manual labor jobs both in formal and informal sectors. The city, in fact, experiences a significant demand for this particular workforce. Further, there is a considerable population of temporary workers, migrant laborers, and individuals commuting between Ho Chi Minh City and rural regions, estimated to range from 1 to 2 million people [13].

ii) The imbalance between education and employment

According to data from the Ministry of Education and Training in 2018, Vietnam has approximately 1.1 million university and college students. These students are distributed across an average of four academic years, resulting in nearly 300,000 students graduating each year. Since 2015, the number of individuals with a university degree or higher who are unemployed has remained consistently at around 200,000 people. However, a significant concern arises from the fact that up to 60% of graduates end up working in fields unrelated to their majors [14].

The labor education structure in various industries of the Vietnamese socioeconomic system currently comprises of one individual with a university degree, one individual with a college

degree, and one technical worker. In contrast, European countries present a different labor education structure with three workers holding college degrees and 10 technical workers for every worker with a university degree. Developed countries tend to have a labor education structure wherein there are four to six individuals with college degrees and approximately 15–17 technical workers for every individual with a university degree [14].

iii) Gig economy - New business models

The gig economy is commonly described as an economy where individuals often engage in part-time or temporary work while companies prefer to hire independent contractors and freelancers rather than full-time staff. This economic model is witnessing remarkable growth and prevalence in various sectors, including e-commerce, IT, food and beverage (F&B), education, and others, leading to a substantial transformation in the global economy.

In terms of employee welfare, the majority of gig workers do not receive support for meals, vacation time, regular health checkups, holiday bonuses, or traditional new year bonuses, which are customary in more traditional employment arrangements. Instead, workers typically benefit from two primary sources: bonuses or commissions for surpassing performance targets and tips provided by customers.

iv) Lack of formal professions requiring high-skilled labor

Among the 21 economic sectors, informal workers primarily concentrate in three key sectors: wholesale and retail trade, repair of motor vehicles and motorcycles, and manufacturing and construction. These sectors do not necessitate high-level skills, resulting in low labor productivity. The crucial approach is to establish professions that generate high value-added, demanding workers with elevated skills and productivity.

According to the ILO's publication "Decent Work and Sustainable Development Goals in Vietnam," the average annual job growth in Vietnam over the past decade has primarily focused on jobs that require medium- and high-level skills. The job distribution in Vietnam by skill level indicates that 53% of jobs across the country require medium-level skills, 12% require high-level skills while the remaining 36% necessitate low-level skills [15].

v) COVID-19 and economic downturn

According to data from the GSO, during the second quarter of 2021, approximately 12.8 million individuals aged 15 and older experienced adverse effects, such as job loss, temporary leave, rotating work, reduced working hours, or decreased income. The size of the labor force decreased by 0.7% and there was a 1.6% increase in the number of unemployed or underemployed workers compared to the same period in 2019.

In the second quarter of 2021, the unemployment rate increased by 0.2 percentage points while the underemployment rate rose by 1.3 percentage points compared to the same period in 2019. Additionally, actual wages remained 1.3% lower than in the second quarter of 2019. Notably, the rate of informal employment reached 57.4% during the second quarter of 2021, marking its highest level in three years [16].

vi) Lack of specialized vocational training

In addition to short-term policies, such as providing cash assistance through taxes and unemployment benefits, it is crucial to prioritize long-term strategies with retraining being the

most significant among them. Retraining programs are essential for creating job opportunities for individuals who have lost their jobs.

To facilitate the transition from informal labor to formal employment, it is imperative to enhance vocational training while simultaneously promoting job creation in businesses to drive economic restructuring. The primary focus should be on vocational training programs that aim to enhance the quality of the rural workforce and expedite the shift from an agricultural labor structure to one based on industry and services.

vii) Loose legal framework on social insurance for informal workers

It is important to note that the majority of informal workers lack social insurance coverage, comprising 97.9% of this demographic. Merely 0.2% of informal workers are obligated to possess social insurance while the remaining 1.9% opt for voluntary participation. In stark contrast, a significant proportion of formal workers, specifically 80.5%, are mandated to have social insurance. This disparity highlights the inherent disadvantages faced by informal workers and their families due to their exclusion from the labor law system [17].

Further, the rate of voluntary social insurance participation among informal workers, which encompasses self-employed individuals and family workers, remains strikingly low, even when their income surpasses the poverty standard. Research has identified certain policy barriers that contribute to workers' reluctance to engage in social insurance, particularly voluntary social insurance.

VIETNAM INFORMAL SECTOR RECOMMENDATIONS

The informal sector poses a significant challenge in achieving stable and sustainable employment conditions in any country. Therefore, it is crucial to encourage worker formalization in Vietnam. This approach will assist Vietnam in attaining various goals, such as becoming a middle-income country, fostering sustainable development, creating decent jobs, ensuring general welfare, and reducing social inequality. To accomplish this, Vietnam needs to implement a comprehensive system built on the following pillars:

Pillar 1 - Improve the business economy

Pillar 2 - Complete and enforce laws and institutions

Pillar 3 - Simplify- digitize the management process

Pillar 4 - Implement technical support and capacity building activities

Pillar 5 - Improve and update statistics

Pillar 6 - Financial support programs and policies

Pillar 7 - OCOP - Agricultural Economic Development Program

Pillar 8 - Digital Agriculture - Initiative to formalize the economy in rural areas

Pillar 9 - Public relations and communication

Pillar 1 - Improve the Business Economy

The analysis indicates that poverty is also one of the factors contributing to the informal workforce. To address this, it is necessary to prioritize on developing the local economy, focusing on industrialization, and modernization. This approach will help attract large industrial enterprises and create better job opportunities for workers.

Analysis results indicate that poverty is one of the contributing factors to the prevalence of informal employment. Therefore, it is crucial to prioritize the development of the local economy through industrialization and modernization. By doing so, favorable conditions can be created to attract large industrial enterprises that will generate decent job opportunities for workers.

To promote and attract foreign investment in high-tech industry will create formal jobs that offer better wages, benefits, and job security. This can incentivize workers to move away from informal employment and toward formal jobs.

The process of industrialization holds the potential to drive the implementation of contemporary technologies and practices that enhance productivity. Consequently, this can lead to the production of higher quality goods, amplified output, and reduced costs. Ultimately, these factors contribute to the increased competitiveness and desirability of formal businesses among consumers.

Pillar 2 - Enforce Laws and Institutions

These programs should focus on improving laws related to social and health insurance as well as welfare policies for the informal workforce sector. Vietnam needs to implement international labor standards to enhance social protection and security. Proper progressive tax collection policies and separate social security mechanisms should be analyzed and applied for individual businesses and microenterprises, where the majority of informal workers are currently employed. Specifically, the following policies need to be studied and implemented:

- Develop mechanisms and policies to encourage employees and employers to sign labor contracts and comply with social insurance policies
- Strengthen the implementation of regulations in enterprises as well as other types of organizations employing labor
- Enforce compliance with labor decrees in the informal sector
- Promote digitalization, technology adoption, and simplify related procedures
- Emphasize the benefits of voluntary social insurance
- Privatize health insurance for the informal sector

Pillar 3 - Digital Transformation to Reduce the Informal Sector

Digital transformation has the potential to enhance the transparency of the informal economy significantly. To effectively control and manage the informal economy, a centralized data center becomes essential. Additionally, an identification system for all employees and business owners should be implemented. By leveraging digital technologies, the process of registering a business and obtaining licenses can be simplified, thereby facilitating the formalization of operations for informal businesses.

Governments can benefit from digital technologies in tracking economic activity more efficiently, leading to increased tax revenues. For example, electronic invoicing systems offer improved visibility into transactions, making it harder for businesses to evade tax obligations.

One of the primary drivers behind the existence of the informal economy is the limited access to formal financial services. However, digital transformation can play a crucial role in bridging this gap. By providing convenient digital platforms, individuals and businesses can easily access banking services, credit, and insurance, thus enabling them to operate within the formal financial sector.

Pillar 4 - Implement Training Activities

Training can be an effective tool to reduce the informal economy sector by specific ways:

- i) **Enhancing skills** - Informal economy workers frequently face limitations due to their lack of formal education and training, leading to restricted job prospects and earning potential. By offering comprehensive training programs, workers can enhance their skills and knowledge, enabling them to compete more effectively in the formal job market. This initiative aims to motivate workers to transition from informal work to formal employment, thereby expanding their opportunities for growth and advancement.
- ii) **Empowering entrepreneurs** - A significant portion of informal economy workers are self-employed or engaged in small-scale businesses. By providing specialized entrepreneurship training, these individuals can gain the necessary tools and knowledge to formalize their businesses. This process facilitates increased profitability and sustainability while also diminishing the size of the informal economy. By encouraging more businesses to operate within the formal sector, this approach helps foster economic growth and stability.
- iii) **Compliance training** - Workers in the informal economy might not possess adequate knowledge about labor laws and regulations, exposing them to potential exploitation and abuse. Offering compliance training can empower workers by educating them about their rights and responsibilities, thereby diminishing their vulnerability to exploitation. Additionally, compliance training fosters a culture of adherence, encouraging businesses to operate within the formal sector and consequently reducing the size of the informal economy.
- iv) **Technical training** - Many informal economy workers lack the technical skills required to excel in specific industries. By implementing technical training programs, these workers can acquire the necessary expertise and knowledge to participate in formal sectors, like manufacturing or technology. This approach facilitates the reduction of the informal economy by motivating workers to transition to formal employment opportunities.

Overall, training can prove to be a highly effective tool in diminishing the informal economy sector by equipping workers with the necessary skills, knowledge, and resources required to make the transition from informal labor to formal employment or entrepreneurship.

Pillar 5 - Using Statistics to Improve the Informal Sector

Statistics can play a crucial role in improving the informal sector in several ways. Here are some suggestions for enhancing its impact:

- **Providing insights into the sector** - Statistics can help in comprehending the size, scope, and characteristics of the informal sector. This information is valuable for policymakers and other stakeholders responsible for designing programs and policies that support informal workers and businesses

- **Identifying areas for improvement** - By analyzing data on the informal sector, areas where informal workers and businesses may be struggling and in need of support can be identified. For instance, if the government observes that a particular group of informal workers is earning lower wages than others, ways to enhance their income-generating opportunities can be explored
- **Evaluating interventions** - Statistics can assist the government in evaluating the effectiveness of interventions aimed at supporting the informal sector. For example, if a government program provides training or financial support to informal businesses, data can be used to measure the impact of those interventions
- **Enabling better planning** - Statistics can aid the government in planning for the future by providing information about trends in the informal sector. For instance, if the number of informal workers in a specific industry is rapidly growing, the government can plan for the necessary infrastructure and services to support them
- **Increasing the accuracy of statistics** - The government should improve the accuracy of statistics by training experts in this field and enabling digital platforms to reduce paperwork and enhance data collection methods

In summary, statistics can be a powerful tool for improving the informal sector by providing insights, identifying areas for improvement, evaluating interventions, enabling better planning, and increasing the accuracy of statistics.

Pillar 6 - Financial Support Programs and Policies

Informal workers often face challenges in accessing banking and financial services, which hinder their ability to save, invest, and obtain credit. To address this issue, governments can take several measures to enhance financial inclusion in underserved communities.

Firstly, promoting the development of banking and financial services within these communities can significantly improve access. This can be achieved by incentivizing financial institutions to establish branches or mobile banking services in underserved areas. By increasing the availability of banking services, informal workers will have more opportunities to engage in formal financial transactions.

Further, governments can implement digital management platforms that consolidate various financial supports for the informal sector. These platforms can streamline processes, provide easier access to financial resources, and facilitate better control and oversight. Such initiatives enable governments to monitor and regulate informal businesses more effectively.

A major factor contributing to the perpetuation of informal businesses is the lack of access to formal financial services, including bank accounts, loans, and insurance. Governments can address this issue by promoting financial inclusion through measures that expand access to formal financial services. For instance, policymakers can create favorable policies that encourage banks to extend their services to small businesses and individuals who have historically been excluded from the formal financial sector.

Additionally, governments can introduce financial incentives to encourage informal businesses to formalize their operations. This can be achieved through measures, like tax breaks or granting access to government contracts. By providing tax rebates or other incentives, governments incentivize informal businesses to register with tax authorities and fulfill their tax obligations.

To reduce the incentives for informal businesses to operate in the shadow economy, governments can improve their tax collection mechanisms. Simplifying tax processes, lowering tax rates for small businesses, and increasing penalties for tax evasion can discourage informal activities and encourage

compliance with formal taxation. These measures contribute to a more transparent and equitable economic environment.

By implementing these strategies, the government can enhance financial inclusion, support the formalization of informal businesses, and create an environment that fosters economic growth and stability.

Pillar 7 - OCOP - Agricultural Economic Development Program

Then Prime Minister Nguyễn Xuân Phúc issued Decision No. 490 on 7 May 2018, approving the OCOP Program aimed at developing the rural economy through increasing the value of agriculture, creating sustainable business opportunities for farmers, and promoting production in the agricultural sector as well as formalizing rural areas. The OCOP Program aims to build communities that create and process agricultural products to supply large cities [18].

By 2021, 2,439 economic organizations have participated in producing OCOP products and have been classified. Among them, the private sector accounts for 59% (27.5% being businesses) while the collective and cooperative sector accounts for 41%. This shows that the goal is in the right direction and is an important economic foundation in rural economic development. According to the reports of 59 provinces and centrally governed cities, 4,469 products have been evaluated and recognized, exceeding the target by 1.86 times. This demonstrates the creativity and enthusiasm of the people in development and diversification of OCOP products. The number of products that achieved a 3- or 4-star rating at the provincial level accounts for 98.3%, indicating that the identification and development of local products within the OCOP Program by the Ministry of Agriculture and Rural Development is highly appropriate and practical [18].

Pillar 8 - Digital Agriculture - Initiative to Formalize the Economy in Rural Areas

The number of workers in the informal economy primarily comes from rural areas. In recent years, Vietnam has focused on agricultural digital transformation and rural development to create an environment that promotes the growth of local businesses and generates employment opportunities. The rural sector will serve as a foundation for driving scientific and technological advancements in smart agriculture, modernizing rural areas, increasing the proportion of digital agriculture in the production, processing, market, and overall economy.

According to Decision 749/QĐ-TTg dated 3 June 2020, by then Prime Minister Nguyễn Xuân Phúc approving the National Digital Transformation Program until 2025, with a vision towards 2030, agriculture is one of the eight prioritized sectors for digital transformation. Digital transformation in the agricultural sector is considered essential and crucial, especially in aligning with the government to achieve the set goals of the national digital transformation program and contribute to the overall objectives of the Government's Administrative Reform Program 2021–30 [19].

The program is combined with other initiatives, such as capacity building, entrepreneurship, and innovation as well as enhancing the capabilities of small- and medium-sized enterprises. This will result in a strong transformation of businesses at the local level, creating a demand for formal employment.

Pillar 9 - Public Relations (PR) and Communication Campaign

PR can effectively raise public awareness regarding the detrimental impact of the informal economy on society, encompassing issues, such as tax evasion, unfair competition, and worker exploitation. By emphasizing these concerns, individuals are more likely to support initiatives aimed at decreasing the prevalence of the informal economy.

A lack of trust in formal institutions, like banks and government agencies, often drives individuals to engage in the informal economy. PR can play a crucial role in fostering trust between these institutions and the public, thereby encouraging greater participation in the formal economy.

PR can also be utilized to promote the advantages of formalization, such as improved access to credit, legal protections, and social security. By highlighting these benefits, individuals are more inclined to opt for the formal economy.

Entrepreneurship can be encouraged and formal businesses can be developed through PR efforts. By showcasing success stories and providing support to start-ups, PR can contribute to the creation of a thriving formal economy, thereby reducing the appeal of the informal economy.

Effectively reducing the informal economy necessitates a cultural shift where individuals and businesses recognize the significance of adhering to labor laws and regulations. PR can aid in fostering a culture of compliance through educational campaigns and outreach programs that emphasize the benefits of formal work and the importance of contributing to the formal economy.

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ABBREVIATIONS AND ACRONYMS

4Ps	Pantawid Pamilyang Pilipino Program
ADB	Asian Development Bank
APO	Asian Productivity Organization
ARBs	Agrarian Reform Beneficiaries
ARMM	Autonomous Region in Muslim Mindanao
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BBS	Bangladesh Bureau of Statistics
BDT	Bangladeshi Taka (currency)
BHW	Barangay Health Worker
BIT	Business Incubation Centers
BSCIC	Bangladesh Small and Cottage Industries Corporation
DILP	DOLE Integrated Livelihood Program
DOLE	Department of Labor and Employment
DTI	Department of Trade and Industry
EODB	Ease of Doing Business
EU	European Union
FDI	Foreign direct investment
FGD	Focused group discussion
FJD	Fijian Dollar (currency)
FNU	Fiji National University
GDP	Gross domestic product
GDT	General Department of Taxation
GNP	Gross national product
GSO	General Statistics Office
GVA	Gross value added
GVAPW	Gross Value Added Per Worker
HLFS	Household Labor Force Survey
ICDP	International Centre for Democratic Partnerships
ICLS	International Conference of Labour Statisticians
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
INR	Indian Rupee (currency)
ISS	Informal Sector Survey
KHR	Cambodian Riel (currency)
LFS	Labor Force Survey
LFPS	Labour Force Participation Survey
MLSP	Ministry of Labour and Social Protection
MLVT	Ministry of Labour and Vocational Training
MNT	Mongolian Tugrik (currency)
MOC	Ministry of Commerce
NCEUS	National Commission for Enterprises in the Unorganised Sector

NCR	National Capital Region
NEP	National Employment Policy
NFIS	National Financial Inclusion Strategy
NGO	Nongovernmental organization
NPO	National productivity organization
NSO	National Statistics Office
NSS	National Sample Survey
NSSF	National social security fund
NTPC	National Training and Productivity Centre
NWPC	National Wages and Productivity Commission
OA	Own account
OAEs	Own-account enterprises
OCOP	One Commune One Product
OSP	Official Statistics Program
OTOP	One Tambon One Product (Tambon means subdistrict)
PAG-IBIG	Home Development Mutual Fund
PhilHealth	Philippine Health Insurance Corporation
PHP	Philippine Peso (currency)
PKR	Pakistani Rupee (currency)
PLFS	Periodic Labour Force Survey
PRMI	Pakistan Regulatory Modernisation Initiative
PSA	Philippine Statistics Authority
R&D	Research and development
RILSP	The Research Institute of Labour and Social Protection
RTI	Right to Information
SBI	State Bank of India
SBP	State Bank of Pakistan
SLP	Sustainable Livelihood Project
SMEs	Small and medium enterprises
SSS	Social Security System
SUCs	State universities and colleges
TFP	Total factor productivity
THB	Thai Baht (currency)
TRY	Turkish Lira (currency)
TUPAD	Tulong Panghanapbuhay sa Ating Disadvantaged (Displaced Workers)
TVET	Technical-vocational education and training
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
UP	Uttar Pradesh
VAT	Value-added tax
VND	Vietnamese Dong (currency)
WV	World Vision

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