

INFORMAL EMPLOYMENT IN INFORMAL SECTOR ENTERPRISES IN MALAYSIA

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Abstrak

Sektor informal menyumbang secara signifikan kepada ekonomi negara terutama negara membangun yang mana ia memainkan peranan utama dalam mewujudkan peluang pekerjaan, pengeluaran dan penjanaan pendapatan. Pada tahun 2005, anggaran berasaskan pendapatan campuran menunjukkan bahawa sektor informal menyumbang 13.0 peratus kepada Keluaran Dalam Negeri Kasar (KDNK) di Malaysia. Usaha untuk membangunkan instrumen kajian bagi mengumpul data mengenai sektor informal telah dijalankan pada tahun 2004 melalui dua kajian rintis berskala kecil iaitu di Kota Bharu, Kelantan dan Kuching, Sarawak. Kajian Rintis Penyiasatan Sektor Informal di peringkat nasional pula dilaksanakan pada tahun 2006. Artikel ini membincangkan profil pekerjaan informal dalam enterpris sektor informal dan hala tuju pengumpulan perangkaan sektor informal.

Kata kunci: Sektor informal, Pekerjaan informal

Abstract

The informal sector contributes significantly to certain economies especially developing countries where it plays a major role in employment creation, production and income generation. In the case of Malaysia, estimates using mixed income indicated that informal sector contributed 13.0 per cent to Gross Domestic Product (GDP) in 2005. Efforts to develop survey instrument to collect data on informal sector was initiated in 2004 with two small scale pilot surveys conducted in Kota Bharu, Kelantan and Kuching, Sarawak. A nationwide Pilot Survey of Informal sector follows suit in 2006. This article presents the profile of informal employment in informal sector enterprises and the way forward on the collection of informal sector statistics.

Key words: Informal sector, Informal employment

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Background

Non-observed activities consist of underground, illegal, informal sector and also activities that result in goods or services consumed or capitalised by the household that produced them (Organisation for Economic Co-Operation and Development [OECD], 2002). The impact of non-observed activities varies among countries where contribution of informal sector might be or not be significant for developed countries compared to the developing countries.

For many years, governments and economists assumed that with the right mix of economic policies and resources, poor traditional economies would be transformed into dynamic modern economies. In this process, the traditional or informal sector was expected to disappear as the modern or formal sector grew and absorbed more labour. However, contrary to expectation, the informal sector and informal employment have gained momentum across nations.

Many countries have not been able to develop a modern economy that is capable of providing adequate employment opportunities for their rapidly growing population. The informal sector, which is consisting of own account or small enterprises with little or no organisation or capital and casual employment, remains as major if not the major source of employment. Moreover, in countries in transition from a centrally planned to a market economy, the informal sector has grown and become an important part of the economy.

As for Malaysia, earlier estimates using mixed income indicated that informal sector contributed approximately 13.0 per cent to gross domestic product in 2005. However, there is no proper data collection method developed for informal sector. Initial effort was undertaken by DOSM in 2004 to conduct a small scale pilot survey in Kota Bharu, Kelantan and Kuching, Sarawak. This was in tandem with the announcement of Datuk Mustapha Mohamed, Minister from Prime Minister Department:

“More attention will also be given to the informal sectors – such as those covering petty traders and hawkers – which have seen ‘too little data collection’ despite a sizeable contribution to the national economy” (More attention will also be given to the informal sectors, 2004).

Literature Review

The informal sector represents an important part of the economy and particularly of the labour market in many countries, especially developing countries, and plays a major role in employment creation, production and income generation.

Cited in the paper of Committee On Poverty Reduction, Economic And Social Commission For Asia And The Pacific [ESCAP] (2006), as a percentage of total employment in non-agricultural sectors, the share of informal sector employment in urban areas is 51.0 per cent in India (2000), 65.0 per cent in Nepal (1999), 64.0 per cent in Pakistan (2000) and 47.0 per cent in Thailand (2000). During the 1990s, the informal sector's contribution to non-agricultural gross domestic product amounted to

45.0 per cent in India, 31.0 per cent in Indonesia, 32.0 per cent in the Philippines and 17.0 per cent in the Republic of Korea. The informal sector is not homogenous, but covers a wide range of activities. In general, the informal sector is dominated by the service subsector, and manufacturing accounts for a relatively small share. During the early 1990s, manufacturing accounted for 10.0 per cent of total urban informal sector employment in Bangladesh and 26.0 per cent in India.

It is well known that a major part of the workforce in India work in the informal sector. A study of Naik (2009) showed that the estimated number of the informal sector workers in 2004 to 2005 was 394.9 million in India, which contributed 86.3 per cent of total workers. In rural areas, the share of the informal sector recorded 79.8 per cent with the share of male workers stood at 62.8 per cent compared to 37.2 per cent female workers. Around 60.6 per cent of informal workers were from Agricultural sector followed by Services (21.3%), Manufacturing (11.7%), Construction (6.0%) and Mining (0.4%). Within Services sector, the highest share of the informal workers was in trade activity (47.2%). The percentage share of the informal sector workers in the poor states was more than developed states which were highest in Bihar (93.6%) followed by Uttar Pradesh (92.2%), Rajasthan (91.2%) and Orissa (90.1%). There was positive and significant correlation between informal sector employment and the incidence of poverty in the states.

Cited in the paper of Sibal (2007), the proportion of informal sector workers (own account workers and unpaid family workers) in the Philippines has declined from 57.6 per cent of the employed labour force in 1980 to 49.6 per cent in 2005. Sibal found that the decline in the number of workers in the informal sector was due to the absorption of some of its members in the formal sector as non-regular or contractual workers.

According to the survey by National Statistical Office of Thailand (1994), above 75.0 per cent of the total employed workforce was in the informal sector. In 2002, Thailand's informal economy, excluding agriculture accounted for 33.8 per cent of GDP (Sundquist, 2008). The latest figure recorded that Thailand's informal economy is very large comprising 22.5 million workers, or nearly 70.0 per cent of the total labour force.

Methodology/Approach - Pilot Survey of Informal Sector, 2006

Definition of informal sector

The Fifteenth International Conference of Labour Statisticians [15th ICLS] (1993) defined the informal sector as:

- a. the informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organisation, with little or no division between labour and capital as factors of production and on a small scale. Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.

- b. production units of the informal sector have the characteristic features of household enterprises. The fixed and other assets used do not belong to the production units as such but to their owners. The units as such cannot engage in transactions or enter into contracts with other units, nor incur liabilities, on their own behalf. The owners have to raise the necessary finance at their own risk and are personally liable, without limit, for any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditure. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes.”

In Malaysia, the definition of informal sector is based on System of National Account [SNA] (1993) and OECD (2002) which in a broad sense, defined an enterprise to also include households producing goods entirely for their own consumption, thus covering all units engaged in productive activities.

Table 1: Conceptual Framework- Informal Employment

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					1	2			
Informal sector enterprises ^(a)	3		4		5	6	7	8	
Households ^(b)	9					10			

Source: 15th ICLS (1993)

Note:

- (a) as defined by the 15th ICLS (excluding households employing paid domestic workers).
(b) households producing goods exclusively for their own final use and households employing paid domestic workers.

Cells shaded in dark grey refer to jobs, which, by definition, do not exist in the type of production unit in question. Cells shaded in light grey refer to formal jobs. Un-shaded cells represent the various types of informal jobs.

Informal employment : Cells 1 to 6 and 8 to 10
Employment in the informal sector : Cells 3 to 8
Informal employment outside the informal sector : Cells 1, 2, 9 and 10

Definition of informal sector enterprises

During its 15th ICLS, Hussmanns (2004) defined the informal sector enterprises on the basis of the following criteria:

- a. private unincorporated enterprise, i.e. 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 enterprises from the other activities of its owners;
- b. all or at least one goods or services produced are meant for sales or barter transaction;
- c. their size in terms of employment is below a certain threshold to be determined according to national circumstances, and/or not registered under specific form of national legislation, and/or their employees are not registered; and
- d. involved in non-agricultural activities, including secondary non-agricultural activities of enterprises in the agricultural sector.

The meaning of the term 'sector' follows the term used in SNA (1993). For national accounting purposes, a sector (institutional sector) is different from a branch of economic activity (industry). It simply groups together similar kinds of production units, which in terms of economic objectives, functions and behaviour have certain characteristics in common. The result is not necessarily a homogeneous set of production units. For the purposes of analysis and policy-making, it may thus be useful to divide a sector into more homogeneous sub-sectors. Informal sector enterprises as defined by the 15th ICLS are a sub-sector of the SNA institutional sector 'households'.

The term 'enterprise' is used here in a broad sense, referring to any unit engaged in the production of goods or services for sale or barter. It covers not only production units, which employ hired labour, but also production units that are owned and operated by single individuals working on own account as self-employed persons, either alone or with the help of unpaid family members. The activities may be undertaken inside or outside the enterprise owner's home, and they may be carried out in identifiable premises, unidentifiable premises or without fixed location. Accordingly, self-employed street vendors, taxi drivers, home-based workers, etc. are all considered enterprises.

National practice using household approach

Labour Force Survey (LFS) appears to be the most appropriate survey instrument for applying the definition of informal employment endorsed by the 17th ICLS. In addition, monitoring the number and characteristics of the persons working in the informal sector, or in informal employment, and the conditions of their employment and work can be achieved periodically through existing LFS.

In order to define informal sector enterprises, the following criteria are used (DOSM, 2006):

- a. all or at least some of the goods or services produced are meant for sale or barter transaction;
- b. non-registration of the enterprise with Companies Commission of Malaysia, Local Authorities or other professional bodies; and
- c. the number of employees are less than 10.

Prior to 2004, there was no official data collected on informal sector. In 2004, pioneer study was undertaken to test data collection method in Kota Bharu, Kelantan and Kuching, Sarawak. In 2006, a national pilot survey was conducted from August until October whereby the informal sector questionnaire was attached to the LFS as a sub module. The household approach was adopted as there was no established frame for informal sector enterprises in Malaysia. This approach allows the coverage of all employed persons in the household, both in the formal and informal sectors irrespective of their employment status.

Geographical Coverage

Geographically, this survey covered urban and rural areas in all states in Malaysia.

Sampling frame

The frame used is from the National Household Sampling Frame which is made up of enumeration blocks (EBs) created for the 2000 Population and Housing Census. EBs are geographically contiguous areas of land with identifiable boundaries, each containing about 80 to 120 living quarters. Generally, EBs are formed within gazetted boundaries that are within *mukim* or local authority areas.

The EBs in the sampling frame are classified into urban and rural areas. Urban areas are gazetted local authority areas with their adjoining built-up areas which had a combined population of 10 thousands or more at the time of the 2000 Population and Housing Census. All other gazetted local authority areas with a population of less than 10 thousands persons and non-gazetted areas are classified as rural.

Sampling design

A stratified two-staged sample design is adopted, that is:

- a. primary stratum - made up of the states in Malaysia
- b. secondary stratum - made up of the urban and rural stratum and formed within the primary stratum

Samples are drawn independently within each level of the secondary stratum. The first stage units of sample selection are the EBs while the second stage units are the living quarters (LQs) within the EBs. All households and persons within the selected LQs are canvassed. At every stage of selection, the units are selected systematically with equal probability within each level of the secondary stratum.

The criteria used in selecting respondents of the informal sector are as follows:

- a. employed household members aged 15 years and above;
- b. main occupation in non-agriculture activity; and
- c. non-government employee.

Question on 'employment status' in LFS questionnaire is used to screen for the second (b) and third (c) criteria.

Questionnaire

The questionnaire of informal sector was attached to the monthly LFS. The socio-demographic variables and detailed information of the economic characteristics of respondents such as marital status, citizenship, educational attainment and occupation are obtained from the LFS questionnaire. The informal questionnaire contained questions that screened informal sector from the formal sector as well as screening questions to differentiate informal and formal employment.

Findings

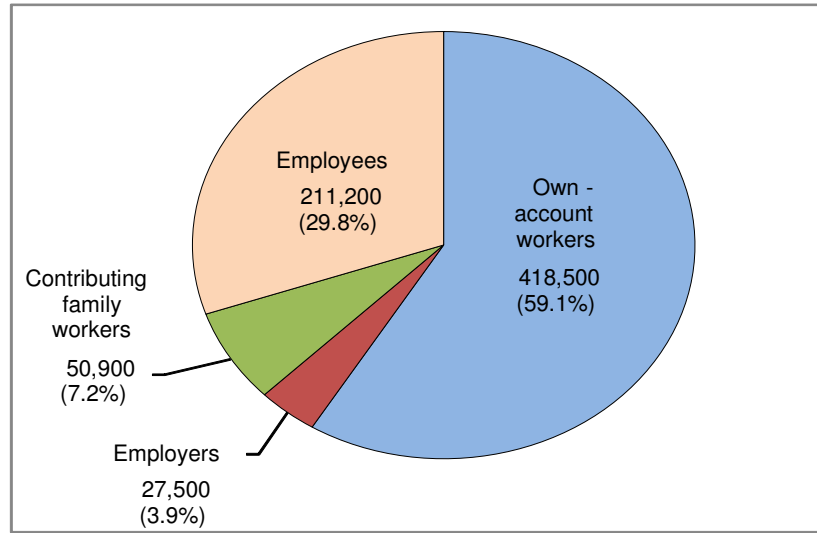
Table 2: Informal employment in informal sector enterprises

Production units by type	Jobs by status in employment								
	Own-account workers		Employers		Contributing family workers	Employees		Members of producers' cooperatives	
	Informal	Formal	Informal	Formal	Informal	Informal	Formal	Informal	Formal
Formal sector enterprises					(1)	(2)			
Informal sector enterprises	(3) 418,500		(4) 27,500		(5) 50,900	(6) 211,200	(7)	(8) -	
Households	(9)					(10)			

Note: Number in bracket denotes cell number

The findings in this article will focus on informal employment in the informal sector enterprises as shown in Table 2 (Cells 3-6 and 8). This comprised informal own account workers, informal employers, informal contributing family workers and informal employees. The informal sector enterprises in this article will subsequently be referred as the sector. Within this sector, there were 708.1 thousands employed as informal workers. Chart 1 shows the breakdown of informal employment by status. More than half of the employment consists of own-account workers category (59.1%) compared to the employers category with the smallest percentage of 3.9 per cent.

Chart 1: Distribution of informal employment in informal sector enterprises by status, Malaysia, 2006



From the total of 708.1 thousands informal employment in informal sector enterprises, the highest percentage of informal employment was in Craft and Related Trade Workers (41.7%), followed by Service, Shop and Market Sale Workers (20.5%) and Elementary Occupations (15.8%). Examples of informal employment in Craft and Related Trade Workers group are motor vehicle mechanic, house/non-traditional materials builder and tailor/dressmaker.

Table 3: Informal employment in informal sector enterprises by occupation, 2006

Occupational Groups	Number	Shares (%)
Legislators, Senior Officers and Managers	38,802	5.5
Professionals	5,136	0.7
Technicians and Associates Professionals	44,203	6.2
Clerical Workers	11,585	1.6
Service, Shop and Market Sale Workers	145,348	20.5
Craft and Related Trade Workers	295,489	41.7
Plant and Machine Operators and Assemblers	55,955	7.9
Elementary Occupations	111,582	15.8
Total	708,100	100

Table 4 shows the distribution of informal employment in informal sector enterprises by state. Johor recorded the highest percentage of employment in the informal sector (14.7%), followed by Kelantan (12.5%) and Selangor (11.5%), whereas other states recorded below than 10.0 per cent.

Table 4: Informal employment in informal sector enterprises by state, Malaysia, 2006

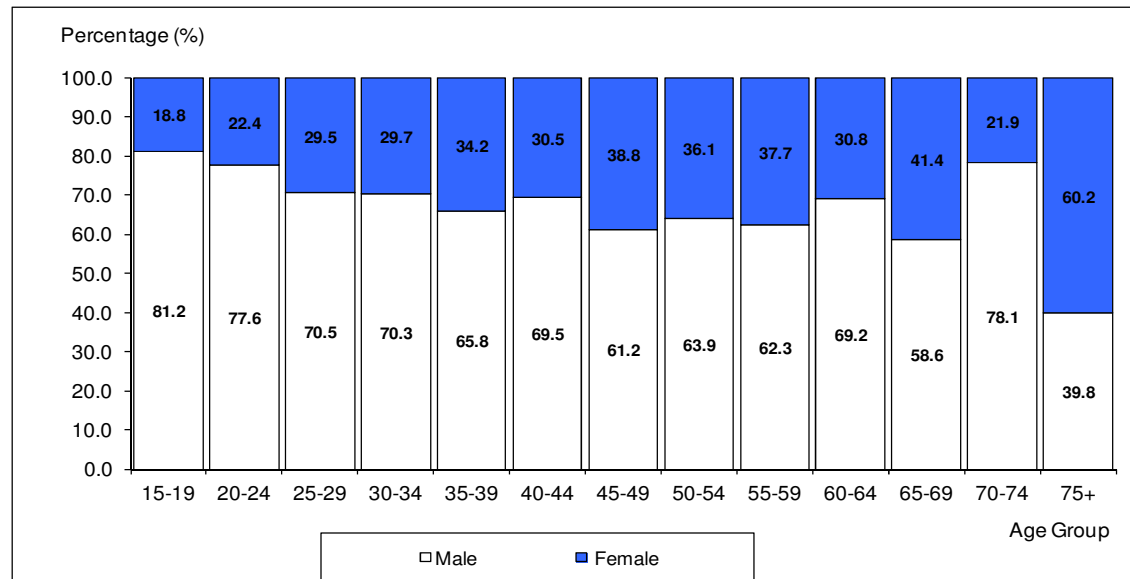
State	Urban	Rural	Total	Percentage (%)
Johor	83,700	20,700	104,400	14.7
Kedah	32,300	37,200	69,500	9.8
Kelantan	28,900	59,400	88,300	12.5
Melaka	9,700	3,800	13,500	1.9
Negeri Sembilan	16,400	10,800	27,200	3.8
Pahang	12,911	15,400	28,300	4.0
Perak	33,600	20,800	54,400	7.7
Perlis	2,300	6,600	8,900	1.3
Pulau Pinang	30,600	11,300	41,900	5.9
Sabah	26,600	30,000	56,600	8.0
Sarawak	31,600	18,700	50,300	7.1
Selangor	68,500	12,900	81,400	11.5
Terengganu	29,200	17,400	46,600	6.6
WP Kuala Lumpur	36,200	*	36,200	5.1
WP Labuan	500	100	600	0.1
Total	443,000	265,100	708,100	100.0

Note: *WP Kuala Lumpur is categorised as urban

About 62.6 per cent of the total informal employment in this sector was found in the urban areas while 37.4 per cent in rural areas. In urban areas, Johor recorded the highest percentage (18.9%), followed by Selangor (15.5%). Meanwhile, for rural areas, the concentration was in Kelantan (22.4%), Kedah (14.0%), and Sabah (11.3%).

The distribution by sex showed that 68.3 per cent males were involved in informal employment in the informal sector enterprises while females, 31.7 per cent. Chart 2 shows the informal employment in informal sector by age group and sex. Overall, male dominated in all age groups except for aged 75 and above (male: 39.8%, females: 60.2%). This higher percentage of females was in line with the incidence of life expectancy at birth in 2006 (male: 71.5; female: 76.5).

Chart 2: Informal employment in informal sector enterprises by age group and sex, 2006



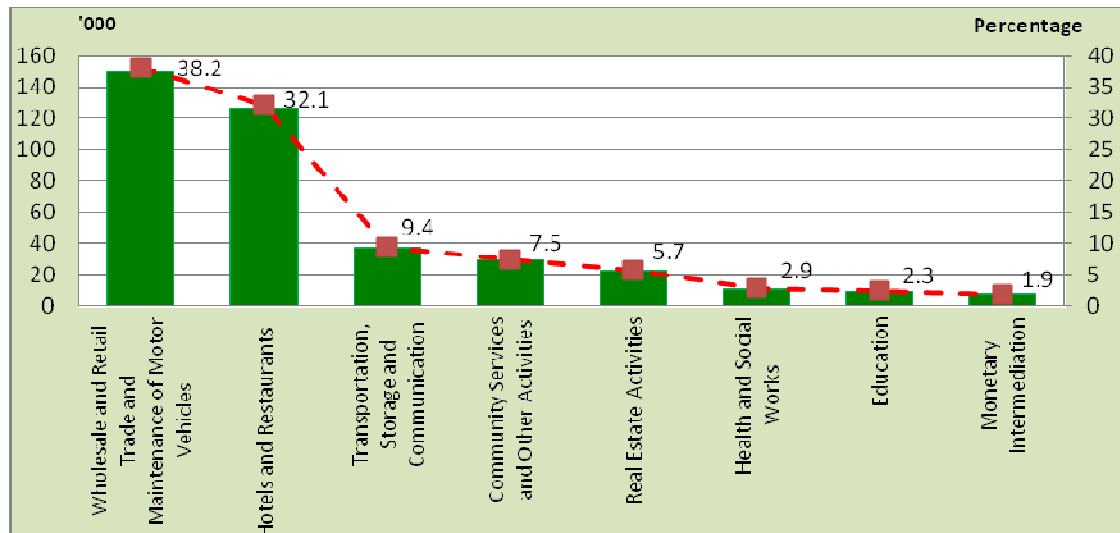
Informal employment in informal sector enterprises by economic activities

In 2006, from the total of 708,100 persons employed in informal sector enterprises, more than 55 per cent was in the Services sector. Another 28.3 per cent engaged in the informal sector enterprises in Construction while 15.9 per cent in Manufacturing.

Table 5: Informal employment in informal sector enterprises by main economic activities, 2006

Economic Activity	Estimates of persons employed in informal sector enterprises	Share (%)
Mining and Quarrying	541	0.1
Manufacturing	112,883	15.9
Construction	200,294	28.3
Services	394,382	55.7
Total	708,100	100.0

Within the Services sector, the main contributors were Wholesale and Retail Trade and Maintenance of Motor Vehicles (38.2%), followed by Hotels and Restaurants (32.1%). (Chart 3)

Chart 3: Informal employments in informal sector enterprises by industries in services sector, 2006

Contribution of informal sector to Gross Domestic Product (GDP)

An attempt was made to gauge the contribution of the informal sector to the total economy using the estimates of Gross National Income (GNI) and Mixed Income (MI); the ratio of MI to GNI is said to be closely reflective of the contribution of the informal sector to GDP².

The estimated contribution of the informal sector is currently based on mixed income concept. Mixed income refers to an income of unincorporated enterprise owner and the estimated contribution was RM57.5 billion for year 2005. It was calculated as a residual between GNI and informal sector contribution.

Table 6: Mixed Income to Gross National Income, Malaysia, 1999-2005

Primary Income Account	RM Million (Nominal Prices)						
	1999	2000	2001	2002	2003	2004	2005
Gross National Income (GNI)	179,794	327,492	331,740	351,671	376,809	402,838	424,295
Mixed Income (MI)	39,134	37,212	33,407	43,270	49,943	43,652	57,454
% MI / GNI	21.8	11.4	10.1	12.3	13.3	10.8	13.5

Source: DOSM, 2005

²Rahman, A. S. and Mohammad, A. (2003). *Measurement of Informal Economy in Malaysia*. Expert Group Meeting on Informal Sector Statistics New Delhi.

Way Forward

The Survey of Informal Sector was conducted arising from the need for official statistics on the informal sector. DOSM will continue to strengthen the informal sector survey instrument to facilitate the calculation of contribution of the informal sector to GDP.

DOSM moved forward to conduct the Informal Sector Survey in 2010. The data from the survey were analysed and presented to the Inter Agency Planning Group for input and consensus and it is expected to be released in 2012.

The method of estimating contribution of informal sector to GDP using the Labour Input Method (LIM) is still being studied. LIM estimates value added and output for an economic activity or a group of economic activities is based on the assumption that all productions require input of labour³. In this method, the aggregate estimates of value added for an economic activity or a group of economic activities is calculated by multiplying the estimated labour input going into the process of production and the estimated value added per unit labour input for the respective economic activity or the group of economic activities. The second level of data collection for informal sector using the enterprise approach will be the next level of study to be undertaken by DOSM.

Complete coverage of the economic production is a vital aspect of the quality of the national accounts statistics. The challenge to achieve comprehensive coverage is due to the difficulties in accounting for certain types of productive activities that are missing from the basic data used for the compilation. This is referred to non-observed economies. Besides the informal sector, the other group of activities include underground, illegal and household production for own final consumption. Further studies need to be conducted to measure the non-observed economic activities.

Conclusion

In 2006, Services sector recorded the highest number of informal employment (55.7%) while the distribution among the states showed Johor contributed the highest number. There were 68.3 per cent males involved in informal employment in the informal sector enterprises and they dominated in all age group except for aged 75 and above.

The informal sector continued to be present in the economy and contribute quite a significant proportion to GDP. It is resilient to economic downturns and provides employment and income to certain quarters of the population.

³ In the 1993 SNA framework, the only exceptions to this general rule are the dwelling services provided by owner-occupiers and the services provided by the owners of intangible non-produced assets like patents.

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