

Malaysian Informal Sector: How Are They Covered Against Main Contingencies?

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Introduction

The informal sector assumes an important influence in the Malaysian economy contributing about 31% of the GDP on average from 1996 to 2014 (Schneider and Buehn, 2018). Rapid urbanisation has led to massive migration to the urban areas causing increased employment in the informal sector. Most of these migrants neither have the skills and qualifications required by the urban economic sector. Thus, these migrants choose to be engaged in the informal sector causing the size of the urban informal sector to increase from 62.9% in 2012 to 82.1% in 2017 (Department of Statistics Malaysia, 2017).

Most of the informal sector workers consist of petty traders, street hawkers, shoeshine boys, garbage pickers, garment makers and as 'underemployed' on the streets of the big towns. The volatile economic environment has also led to the dependence on the informal sector as a buffer for income generation. However, the informal sector is often associated with low income having relatively poor living standards and not covered by any social protection system.

This study is generally concerned about the wellbeing of those engaged in the informal sector. Specifically, it aims to (i) assess the extent to which their welfare is protected against any economic calamity; (ii) establish the motivation for participation in the informal sector; (iii) establish the demographic and socioeconomic profiles of the informal sector workers in Kuala Lumpur and Penang; and (iv) suggest policy directions for social protection coverage for the informal sector.

Following Global Development Research Center (2016), the urban informal sector is defined to comprise any economic enterprise which employs less than a fixed number of persons, and satisfies at least one of the following conditions: (i) it operates in an open space; (ii) it is housed in a temporary or semi-permanent structure; (iii) it does not operate from spaces assigned by the

government, municipality or private organizers of officially recognised market-places; (iv) it operates from residences or backyards; and (e) it is not registered.

Methodology

Respondents for the study include hawkers, stall operators in wet markets, those selling roadside tea, nasi lemak, banana fritters, as well as night market operators and the like. They must be Malaysians and are derived from sampling frames provided by City Hall of Kuala Lumpur, City Council of George Town, and Municipal Council of Seberang Perai.

A stratified sampling method was employed based on parliamentary zones, urban-rural location, licensed-unlicensed, and broad types of activity. Data were obtained using questionnaire survey administered to a total of 1219 respondents – 610 in Kuala Lumpur and 609 in Pulau Pinang (the island and Province Wellesley).

Background of Respondents

Two-thirds (68.2%) of the respondents are aged 20 to 49 years. 9/10 of the business operators are ethnic Malays. About 75% of respondents in the Kuala Lumpur sector have secondary education with 13.3% having primary education or none. In contrast only 53.7% of the respondents in Pulau Pinang have secondary education with 34.4% having primary education or none.

Key Findings

Households of those in the Informal Sector

- 1) Respondents have a medium-sized household, averaging 4 persons.
- 2) 44% of households are two income-earners, and another 13.6% of households are three to five income-earners.
- 3) A majority (96.3%) of the contributors to household income are aged 15-64 years.
- 4) 61.1% of contributors are males.

Condition of Households

- 1) Though almost all respondents' households are not deprived of basic essentials such as food, clothing and transportation, half reported they do not have adequate financial protection against unforeseen circumstances.
- 2) 30% find housing cost burdensome.
- 3) 96% consider themselves to be fairly healthy.

Income

- 1) 19.1% of the contributors earn a monthly wage or salary of less than RM1200. The average wage or salary of all the contributors is RM2120.
- 2) The mean income of the head of a household is RM3354 with the mode being RM2000. These figures are indecent unless the household has more than one contributor to the household income.

Business activity

- 1) Own account workers comprised 60.3% of total employment while wage earners 22.1%.
- 2) Drivers of the informal sector: 71% interest, 66% relative ease of doing business; 35% less operational problems; 26% preference for self-employment, 24% low educational attainment, 21% need for supplementary income, and 15% inheritance of family business.
- 3) 77% began their business on their own initiatives.
- 4) 96% of the respondents needed some form of capital. 83% of them used their personal savings, and 12% obtained personal loans from agencies such as Tekun, Amanah Ikhtiar Malaysia (AIM) and Majlis Amanah Rakyat (MARA).
- 5) 72% operate with a business license from the local authority.
- 6) 95% operate only at one business outlet.
- 7) 18% have encountered problems operating their business at the current site. Major problems include (i) stiff business competition; (ii) high operating costs; (iii) harassment by enforcement officers; (iv) lack of business growth; (v) excessive controls by the authorities; and (vi) an unfriendly community.
- 8) 2/3 have operated their business for over 5 years.
- 9) 38% of the businesses are operated daily, 41% on 6 days, and 12% on 5 days a week.

- 10) With regard to business hours, 56% operate their business for more than 6 hours each day; while 7% extend beyond 10 hours.
- 11) 74% of the respondents have experienced decline in sales due to economic reasons.
- 12) Some register with ROC to obtain financial support from government programmes.
- 13) 90% are not members of any business association.

Social Security

- 1) Only 2.3% of the respondents are subscribing to the Employees Provident Fund (EPF), 2.1% to SOCSO, 13.8% has life insurance, 14.6% has health insurance, 18.4% has accident insurance, 23.9% has endowment insurance, and 25.3% has unit trusts.
- 2) Only 12.3% of the respondents have funds that would last 6 months given disruption in business.
- 3) 32.5% of the respondents have no monthly savings.
- 4) Only 23.1% have households that have experienced difficulties in making ends meet.
- 5) 11.3% of the respondent's household has faced shortage of money to purchase food.
- 6) In general they could survive on a day-to-day basis but do not have adequate financial protection against any unexpected event.

Workers in Informal Activity

- 1) 95.5% of the workers employed by the respondents are within the working age group, and 4.1% are more than 64 years old.
- 2) 57.9% of the workers are males.
- 3) 95.7% of the workers are engaged without a contract.
- 4) Average monthly wage/salary of workers is RM1344.

Expectations

- 1) Hopes the government would:
 - a. provide financial aid for children's education, single mothers, orphans, the physically challenged, and senior citizens;
 - b. provide support for vocational training and for housing and living expenses;
 - c. reduce indirect taxes on essential goods and services and their prices and toll charges, and
 - d. provide health insurance.
- 2) To facilitate their business ventures, the respondents wish for a financial aid in the

form of loans or grants for business establishments and for the provision of suitable business sites and premises. There are also calls for a waiver of license fees.

Policy Directions

Informal sector businesses contribute heavily to GDP as well as job creations despite the fact that many operate under unregulated conditions. In Malaysia, a large proportion of the operations are regulated through licensing of the activity to comply with local government bylaws and to avoid harassment by enforcement agencies. Thus, these activities may be promoted for their better wellbeing. Related policy directions are:

- 1) Establish Business Support Services
 - a. Set up business advisory units to offer advice on the type of business they could undertake, and on mechanisms to reduce the operating cost of a business. Local authorities should set up new petty business centres in consultation with the participants to minimise frictions between the authorities and the participants. This initiative could boost the income levels of participants and their savings.
 - b. In addition, business licensing procedures should be simplified to boost compliance amongst participants.
- 2) Provision of Financial Aids
 - a. Consider provision of loans or grants to participants in the informal sector via Tekun, Amanah Ikhtiar Malaysia (AIM) and Majlis Amanah Rakyat (MARA) so that their businesses could thrive better.
 - b. Support upward social mobility of participants' households, by providing more education aid to their children.
- 3) Channel more aids for the needy in the informal sector communities.

Social Safety Net

- i. In terms of their wellbeing, they are vulnerable to all shocks given that majority of them do not have savings and health insurance. Majority of them acknowledged that they were adversely affected by economic crisis. Hence, it is timely for policy makers to design a protection scheme tailor-made to their needs - a savings scheme that offer health insurance (e.g SOCSO); yet more flexible than the

existing EPF scheme, where they can withdraw a certain amount should they face difficulties during economic downturn.

- ii. Traders in the informal sector should be encouraged to establish traders' associations or cooperatives that provide mutual help amongst members.

References

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