

Summary Brief

INVISIBLE HANDS

ENABLING PACIFIC WOMEN IN THE
INFORMAL ECONOMY

JULY 2023

Key Points

- The informal economy is an **important and enduring** part of the Pacific private sector.
- The **informal economy is directly and indirectly linked to the formal economy**. Both informal and formal economic activity are underpinned by unpaid care and domestic work, the majority of which is undertaken by women.
- **Understanding informality**, the challenges experienced by operators of informal businesses, and the reasons why they may or may not formalize **is essential to achieve lasting growth** among Pacific micro, small, and medium-sized enterprises (MSMEs).
- Understanding informality is also **critical for understanding women's businesses**.
- **Registered businesses have obligations**, such as paying taxes. **They also have benefits** such as the ability to enter into contracts, and greater access to government support.
- **Informal businesses** avoid taxation and reporting obligations, but also **miss out on many government supports and worker protections**.
- Women in the informal economy are overrepresented in the **most vulnerable and lowest paid roles**.
- **Some women prefer the flexibility and reduced costs and burdens** of the informal economy.
- **Women who prefer to operate in the informal sector need protection and support** to mitigate the disadvantages of informality, including access to government support, training, finance, and retirement funds.
- **Other women might wish to formalize their businesses**. It is harder for women to grow their businesses to a point where formalization makes sense, and women experience gendered barriers to registration. Not all business entities work equally well for all women.
- **Women seeking to transition to the formal economy need support** from government to reduce the associated costs and barriers.
- **Women who have registered their businesses face gendered barriers**, for example, in accessing finance. Governments need to build a gender-inclusive enabling environment to support women's businesses once they formalize.

The Pacific Informal Economy

FIGURE 1:
PACIFIC INFORMAL
ECONOMY FIGURES

INFORMAL SECTOR OUTPUT¹

EQUIVALENT OF

32.9%

OF OFFICIAL GROSS DOMESTIC
PRODUCT (GDP) IN FIJI

EQUIVALENT OF

35.4%

OF OFFICIAL GDP IN
PAPUA NEW GUINEA

EQUIVALENT OF

32.5%

OF OFFICIAL GDP IN
SOLOMON ISLANDS



INFORMAL SECTOR EMPLOYMENT² (AS A PERCENTAGE OF TOTAL EMPLOYMENT)

COOK ISLANDS	29%	28% of total male employment 30% of total female employment
FIJI	44%	45% of total male employment 42% of total female employment
SAMOA	52%	55% of total male employment 49% of total female employment
TONGA	81%	83% of total male employment 78% of total female employment
VANUATU	72%	71% of total male employment 74% of total female employment

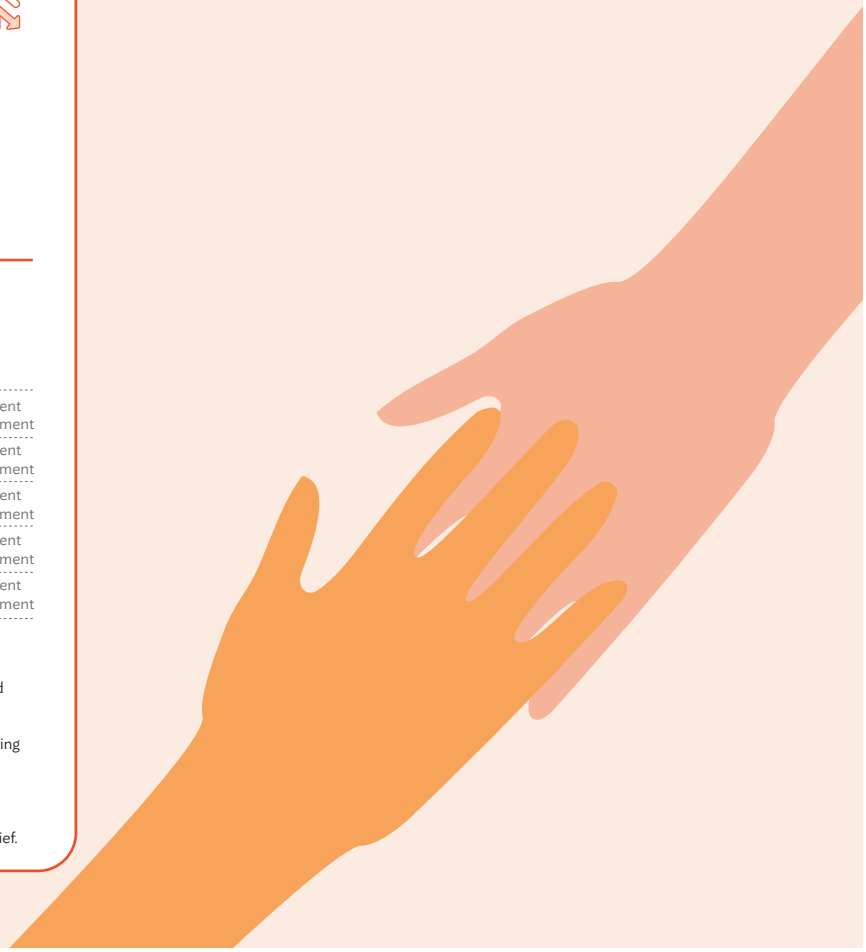
1. Estimated average for the period 1993-2016. Author's calculations, based on multiple indicators multiple causes model-based (MIMIC) estimates of informal output (% of official GDP), World Bank Informal Economy Database; C. Elgin, M. A. Kose, F. Ohnsorge, and S. Yu. 2021. "Understanding Informality." *CERP Discussion Paper 16497*, London: Centre for Economic Policy Research.

2. International Labour Organization. No date. *Labour statistics for the Sustainable Development Goals (SDGS)*. <https://ilostat.ilo.org/topics/sdgs/>. Limitations to this data can be found in the full report for this summary brief.

Informal economic activity is part of the daily lives of many workers around the world, and its associated risks and vulnerabilities have consequences for social and economic development.

Therefore, it is important that government policy and programming consider the informal economy, and seek to integrate the informal economy into approaches to private sector development.

Pacific economies are typically characterized by small formal sectors, alongside a much larger informal sector. The informal sector includes informal employees in formal businesses, own-account workers, and informal businesses and their staff (including contributing family workers), in addition to those in subsistence production and unpaid care roles.



Men and Women in the Informal Economy

- Men and women are engaged in the informal economy in similar numbers **but in different ways**.
- The informal economy **generates considerable economic output and provides employment to more than half the working population in many Pacific countries**, yet is not measured or reported in official statistics.
- **Informal economic activity contributes indirectly to taxation revenue and is equivalent to around 30% of GDP** in Fiji, Papua New Guinea, and Solomon Islands (see Figure 1, page 3).
- **Women in the informal economy are underrepresented as employees and employers, overrepresented in lower paying roles** (Chen 2007), earn less when undertaking the same activities, and undertake most unpaid care work (International Labour Organization [ILO] 2022).
- In addition to their contributions as informal business operators and employees, **women's unpaid care work underpins and enables the formal economy**.

Women in the informal economy are concentrated in the most vulnerable situations (Figure 2). Women make up 76% of the 76 million domestic workers globally and more than 80% of all domestic workers are in informal employment (ILO 2021).¹

The flexibility and low barriers to entry of the informal economy enable many women to conduct and structure their activities in ways that meet their preferences and needs. This is important because many economically active women have a “double workday”, combining home and caring responsibilities with their economic activities. For example, in Papua New Guinea

(PNG), women work on average nearly twice as many hours as men and, in Tonga, women spend 50% more hours than men each week on unpaid activities (Pacific Community 2017). This unpaid care and household work is a factor in many women's decision to engage in flexible, low paid informal employment (Moussié et al. 2021).

As part of the informal economy, women business owners and employees play a vital role in the Pacific private sector. Women-owned informal businesses provide employment, generate incomes, and contribute to economic development. They also contribute to tax revenue through indirect and presumptive taxes, and

1. Domestic workers undertake tasks such as cooking, cleaning, or gardening in households, as well as caring for children or older people (International Labour Organization 2021).

contribute directly to the formal economy through flows of raw materials, equipment, consumer goods, and finance, as well as the provision of services and care.

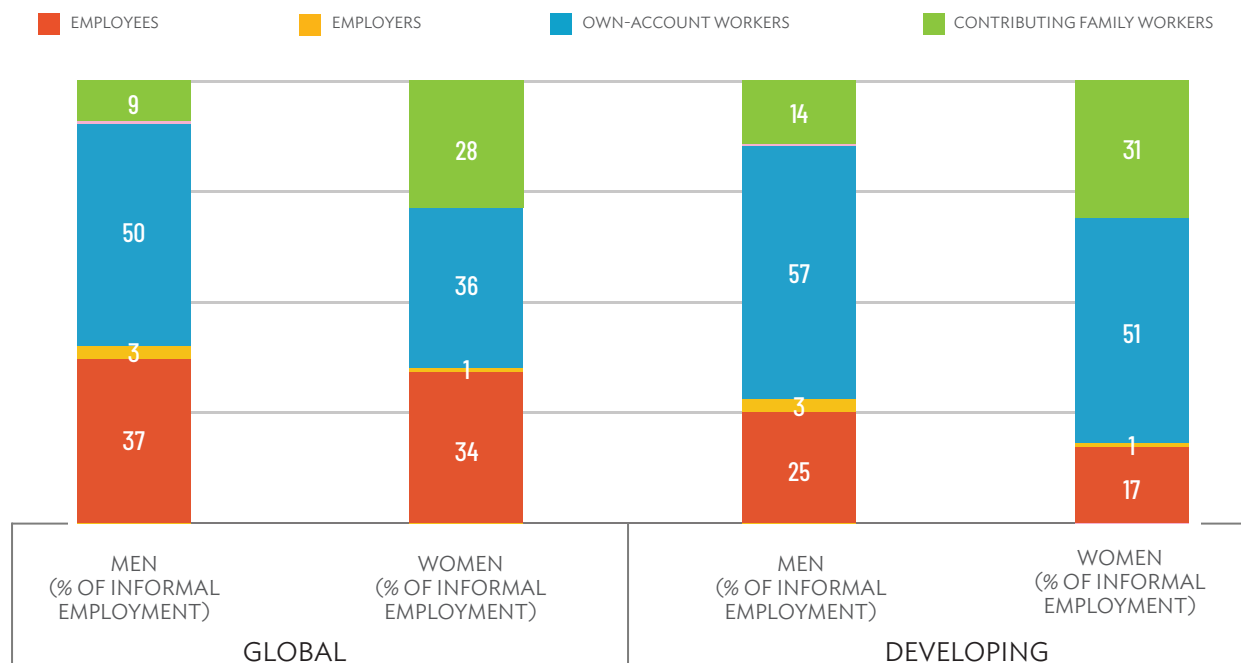
In some of the Asian Development Bank’s (ADB’s) Pacific Developing Member Countries (DMCs), the informal economy provides employment and livelihoods for more than half the working population.

It is especially important for women’s employment and business opportunities, particularly for older and younger women.

Measuring the informal economy is difficult (Ohnsorge and Shu 2022). The informal economy includes the outputs of informal businesses, domestic workers, and people who are informally employed in

the formal sector (Quiros-Romero et al. 2021), as well as the goods people produce for their own use. In addition to the output of the informal economy, informal businesses provide inputs, goods, or services directly or through subcontracts to the formal economy, and many informal workers are employed by formal businesses (Chen 2007).

**FIGURE 2:
COMPOSITION OF INFORMAL EMPLOYMENT BY SEX AND COUNTRY
INCOME GROUP, 2016 (INCLUDING AGRICULTURE)**



% = Percentage.

Source: ILOSTAT Employment by Sector, 2016 in F. Bonnet, J. Vanek, and M. Chen. 2019. *Women and Men in the Informal Economy: A Statistical Brief*. Manchester: Women in Informal Employment: Globalizing and Organization (WIEGO).

Characteristics of the Pacific Informal Economy

→ Consistent with global data, the **informal employment rate is highest among younger and older people** in the Pacific.

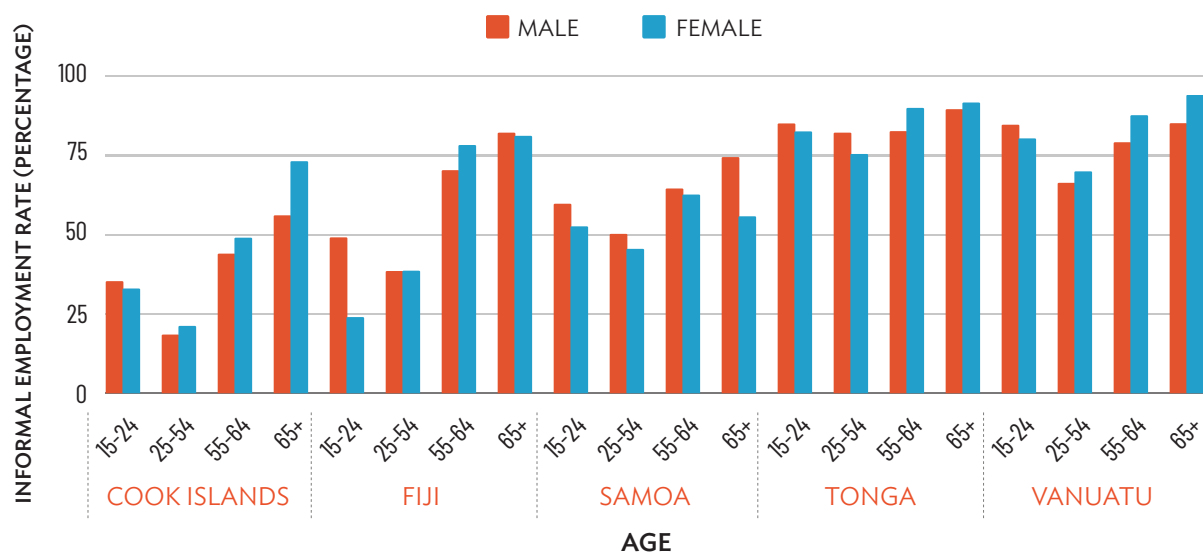
The patterns of informal employment rates and ages for men are broadly similar to those of women.

For women, informal employment rates are highest aged 65+ in the Cook Islands, Fiji, Tonga, and Vanuatu, with the lowest informal employment rate observed for women aged 25–54 in most countries (Figure 3).

The rate of engagement of older men and women in the informal economy is suggestive of a lack of social protection and/or insufficient old age pensions.

However, there is a particular need to support women given their lower rates of participation in retirement funds and lower earnings throughout their working lives (Pacific Private Sector Development Initiative 2022).

FIGURE 3:
INFORMAL EMPLOYMENT RATE, PERCENTAGE OF TOTAL EMPLOYMENT BY AGE AND SEX



Source: ILOSTAT. Last updated 17 July 2022. Harmonized series based on Cook Islands Labour Force Survey 2019; Fiji Employment, Unemployment Survey 2016; Samoa Labour Force Survey 2017; Tonga Labour Force Survey 2018; and Vanuatu Household Income and Expenditure Survey 2019.

BOX 1: INFORMAL ENTERPRISES

Across the Pacific region, there is limited detailed information and data regarding private sector enterprises, particularly micro, small, and medium sized enterprises (MSMEs), and regarding women's participation as business owners. While data on the informal economy tends to focus on workers and informal employment, some Pacific Developing Member Countries (DMCs) of the Asian Development Bank (ADB) have collected data on informal enterprises, including Papua New Guinea, Tonga, and Vanuatu.

THE INFORMAL ECONOMY IN PAPUA NEW GUINEA





MORE THAN
80%
OF THE POPULATION EARN
A LIVELIHOOD THROUGH
THE INFORMAL
ECONOMY (KOPEL 2017).



Papua New Guinea is the
only Pacific DMC

to have a specific policy for the informal economy.

The **National Policy for the Informal Economy 2011–2015** was adopted in 2011. The policy:

- recognizes the contribution of the informal economy as “the grassroots element in the private enterprise system”. 
- states that “a woman sitting in Koki market with some vegetables for sale is in ‘private enterprise’ just as much as Kina Securities or Brian Bell”. 
- aims for the “informal economy to grow in size, and in the diversity and quality of the goods and services produced by it”. 
- has not been implemented in full (ADB 2018). 

A new policy is being developed to replace the National Policy for the Informal Economy 2011–2015.

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THE INFORMAL ECONOMY IN TONGA

MORE THAN
80%
OF INFORMAL
BUSINESSES
HAVE NO EMPLOYEES.



APPROXIMATELY
81%
OF INFORMAL
BUSINESSES MADE
A PROFIT.



THE MOST COMMON REASONS FOR STARTING
A BUSINESS WERE:

BETTER INCOME
(94%)

**PREFERENCE FOR SELF
EMPLOYMENT** (50%)



50% of all informal business activity in Tonga was focused on four areas: **root crops, the production of mats, tapa making, and ta'ovala manufacturing.**



(Government of Tonga, Ministry of Trade and Economic Development 2022)

THE INFORMAL ECONOMY IN VANUATU

VANUATU'S FORMAL AND INFORMAL MSMEs ARE

60%
MALE-OWNED



20%
WOMAN-OWNED¹



**94% of rural MSMEs and
66% of urban MSMEs** are informal.

Women-owned MSMEs are **twice as
likely** to be informal as formal.



Women in the informal economy operated businesses in the sale of **food and beverages, handicrafts, and fresh produce**, among other activities, while those in the formal sector were involved in **tourism, agriculture, and hotels and restaurants**, among other activities.



(Reserve Bank of Vanuatu and Alliance for Financial Inclusion 2016).

1. Ownership of the remaining 20% was either joint or unknown.

Asian Development Bank. 2018. *Women and Business in the Pacific*. Manila; Government of Tonga, Ministry of Trade and Economic Development. 2022. *Tonga Informal Business Survey 2021*. Nuku'alofa; E. Kopel. 2017. *The Informal Economy in PNG: Scoping review of literature and areas of further research issues, Paper 25*. The National Research Institute; Reserve Bank of Vanuatu and Alliance for Financial Inclusion. 2016. *Vanuatu Micro, Small, Medium Enterprises (MSME) – Finance 2016 Survey: Exploring the MSMEs survey challenges and understanding the MSME characteristics for ways forward*. Port Vila.

Benefits and Costs of Formalization in the Pacific

→ **Formalization can provide benefits to economies, workers, and businesses, but also imposes costs.** Not all businesses have the capacity, resources, or desire to formalize, and formalization does not necessarily resolve the challenges that women operating businesses face.

Tackling informality has been sporadic and piecemeal by Pacific DMCs. PNG is the only Pacific DMC that has an existing policy specifically focused on the informal economy. The absence of specific strategies to support informal businesses (including their transition to the formal economy), particularly those operated by women, is a missed opportunity for private sector development given the scale of informal economic activity.

There are a range of reasons why businesses may or may not consider formalizing. The informal MSME framework developed by the International Finance Corporation provides a useful starting point for considering the capacity and willingness to formalize (Table 1). Through a better understanding of the scale of informal businesses and their reasons for operating informally, governments can provide targeted support to those willing to formalize and consider ways to address the concerns of the “defensive evader” category.

TABLE 1:
WILLINGNESS AND CAPACITY TO FORMALIZE

		Willingness to formalize	
		Yes	No
Capacity to formalize	Yes	<p>Opportunity firms Have the greatest potential for growth and job creation, as well as for formalization in the future.</p>	<p>Defensive evaders Have the capacity to formalize but are not willing to do so due to high registration costs, regulatory burdens, and high ongoing costs.</p>
	No	<p>Wannabe firms Willing to formalize but lack the capacity to do so.</p>	<p>Necessity firms Operating because the entrepreneur has to find means to survive.</p>

Source: IFC. 2013. *Closing the Credit Gap for Formal and Informal Micro, Small and Medium Enterprises*. Washington, DC.

**FIGURE 5:
BENEFITS OF FORMALIZATION**



1. FOR ECONOMIES



Formalization delivers economic benefits such as **increased tax revenue, job creation, and productivity.**



Formal enterprises are **subject to environmental, occupational health and safety, and labor laws** which can benefit communities and workers.



Formal enterprises are **more easily brought into the tax system**, which is necessary for governments to provide the services and infrastructure upon which businesses and consumers rely.



2. FOR WORKERS



Workers who are employed formally can benefit from **improved workplace conditions and protections** compared to those in the informal economy.



Workers in the formal economy are more likely than those in the informal economy to benefit from **social insurance schemes and retirement funds.**



Workers in the informal economy face challenges in **mobilizing, organizing, and expressing their views.**



Workplace sexual harassment legislation, policies, and codes of conduct “are often considered inadequate by potential users” (International Labour Organization 2015), and the protections that apply **focus on formal workplaces**, such as government departments.



3. FOR BUSINESSES



Confers distinct legal status

- Formalization via registration of a business entity enables a business owner to enter contracts in the name of the entity, rather than themselves.



Facilitates access to finance

- Throughout the Pacific, women face additional challenges in accessing capital.
- Most financial institutions will lend in larger amounts and on more favorable terms to legal entities.



Facilitates greater access to government supports

- Government stimulus packages in times of crisis prioritize the formal economy.
- Formalization can also provide businesses with access to grant programs, business development support, associations, and networks (Chen 2007).

Sources: M. Chen. 2007. “Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment.” *UNDESA Working Paper No. 46*; International Labour Organization. 2015. *Eliminating sexual harassment in workplaces in the Pacific*. Geneva.

Women's Entrepreneurship and the Informal Economy

→ Understanding the informal economy is **essential for a complete picture of the economic role and contribution of women.**

→ The informal economy is **an important avenue for women's employment and entrepreneurship** throughout their lives.

Many women do not wish to set up and run businesses on a full-time, ongoing basis, or are constrained from doing so due to other commitments and obligations. Most women who undertake business activities within the informal economy do so alongside their unpaid care responsibilities, as informal economic activity suits them and provides a way of balancing their multiple responsibilities (Figure 5).

EMPOWERMENT AND ENTREPRENEURSHIP

Operating informally can be a relatively easy way for entrepreneurs to test out new ideas and grow their businesses while avoiding costs. It can also provide opportunities for women's empowerment, and more flexibility to pursue business in ways that meet women's preferences and without the barriers and costs of formalization.

However, operating informally comes with vulnerabilities and challenges, and formalization can provide benefits to individuals, businesses, communities, and government. Women in the informal economy need support from government to reduce the costs and barriers of formalization and increase the benefits that they receive from formalization. Women who choose to remain in the informal economy also need protection and support to mitigate the disadvantages of informality, including government support and access to training, finance, and retirement funds.



FIGURE 5: WHY WOMEN ENGAGE IN THE INFORMAL ECONOMY

→ 1. MEETING COMMUNITY OBLIGATIONS



Many Pacific women are motivated to pursue economic opportunities so they can increase their contributions to their communities, rather than seeking to maximize personal profit (Jolly 2015).

In a study focused on Solomon Islands, informal activities were, for many women, “the only way they can fulfill their economic and social obligations” and thus increase their status (Fakaia 2000). In Samoa, women operating in the informal sector, meanwhile, reported that their income was “fast money” that enabled them to meet their church and community obligations (Taua’a 2010).

→ 2. MEETING HOUSEHOLD NEEDS



Informal businesses can be established and scaled up quickly. This provides women with the flexibility to meet their immediate needs, and build a potential safety net in times of disruption, such as disasters or economic shocks.

In a study focused on Solomon Islands, 84% of respondents reported that their main reason for engaging in informal employment was to “earn cash required by the family to survive in Honiara” (Fakaia 2000). In Samoa, women reported that the informal economy provides an easier and more flexible way to meet household needs, such as education costs, than formal employment (Taua’a 2010).

→ 3. BETTER OPPORTUNITIES FOR INCOME GENERATION



The informal economy can offer women the opportunity to earn more than formal employment.

The National Audit of the Informal Economy in Papua New Guinea (PNG) found that one in five workers in the informal economy were previously employed in the formal economy, but shifted to the informal economy based on “better potential earnings as well as more regular (daily) earnings” (Department for Community Development and Religion, PNG 2019). The audit found that informal workers work longer hours but earn about three times the minimum wage. In Solomon Islands, Fakaia (2000) found that 22% of surveyed women had previously been in formal employment, but left due to reasons including poor pay.

Sources: Department for Community Development and Religion (DfCDR), PNG. 2019. *National Informal Economy Audit, 2018*. Port Moresby; M. Fakaia. 2000. *Bisnis belong olgeta mere long Honiara, Solomon Islands*. Research Project, Massey University; M. Jolly et al. 2015. *Falling through the net? Gender and social protection in the Pacific*. UN Women Discussion Paper, No 6; T.S. Taua’a. 2010. “Women in the informal sector: the Samoan experience.” *The Journal of Samoan Studies*, 3, pp. 55–65.

Recommendations

RECOMMENDATION 1

The contribution of the informal economy, and the significant contribution of women in it, needs to be recognized and highlighted through improved data collection and inclusion in policies.

- 1.1 Sex-disaggregated data on the informal economy should be collected and reported. This should include data on informal employment, the prevalence of informal businesses, informal business activities, and the constraints and opportunities informal businesses experience.
- 1.2 Data should be collected to understand the extent and nature of women's and men's participation in the formal, informal, and care economies.
- 1.3 Unpaid care work should be measured and reported.

RECOMMENDATION 2

Governments should build their understanding of the challenges women face in business, recognize that not all women wish to register their businesses, and address gendered barriers to business registration.

- 2.1 Governments should seek to better understand the challenges women face in business, and the reasons why some women may choose not to register.
- 2.2 Recognizing that not all women wish to register, governments should focus on the subset of women who are willing, able, and ready to register, and develop support and incentives for them.
- 2.3 Governments should increase outreach to women about business registration, and build women's awareness of the process and benefits of registration.
- 2.4 Governments should recognize that there are gendered barriers to registration, including digital gender gaps, and seek to address these barriers, including by increasing women's awareness of registration processes and access to registration offices.
- 2.5 Governments should ensure that there are appropriate forms of registration that suit how women wish to work, including in groups.



RECOMMENDATION 3

Governments should reduce the cost and complexity of registration, develop incentives for formalization, and strengthen the gender-inclusive business enabling environment.

- 3.1 Governments should reduce the cost and complexity of registration, and of being registered, through continued work to streamline registration processes and reporting requirements.
- 3.2 Governments should explore ways to ease the cost burden of newly-registered businesses and incentivize formalization, such as through adjusted filing fees, simplified tax regimes for micro and small enterprises, or streamlined reporting requirements for a set period.
- 3.3 To ensure that women who register their businesses benefit from registration, governments should assess the extent to which there is a gender-inclusive enabling environment for the private sector, and address the barriers that women face.

RECOMMENDATION 4

Governments should support business owners who wish to remain informal and explore ways to address the vulnerabilities and barriers that operators of informal businesses, particularly women, face.

- 4.1 Governments should develop strategies to support informal businesses (particularly businesses operated by women), including support to transition to the formal economy if desired.
- 4.2 Sector-specific analysis should be undertaken to understand the barriers and opportunities for informal businesses, with a focus on sectors where women are overrepresented, such as domestic work, handicrafts, and tourism.
- 4.3 Governments should consider ways to expand access to retirement funds to women in the informal sector, including the policy and regulatory reforms recommended in PSDI's *A Secure Retirement: Leveling the Playing Field for Women in the Pacific* report (PSDI 2022).
- 4.4 Governments should expand eligibility for government support and social protection, including in times of crisis, to women in the informal sector.
- 4.5 Governments should encourage financial institutions to increase the use of secured transaction frameworks, enabling more women (including those in the informal sector) to obtain finance by pledging alternative forms of collateral.

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ABOUT PSDI

The Pacific Private Sector Development Initiative (PSDI) is a technical assistance program undertaken in partnership with the Government of Australia, the Government of New Zealand, and the Asian Development Bank (ADB). PSDI supports ADB's 14 Pacific developing member countries to improve the enabling environment for business and to support inclusive, private sector-led economic growth. The support of the Australian and New Zealand governments and ADB has enabled PSDI to operate in the region for more than 15 years, and assist with more than 300 reforms.



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