

PACIFIC PRIVATE SECTOR
DEVELOPMENT INITIATIVE



INVISIBLE HANDS

ENABLING PACIFIC WOMEN IN THE INFORMAL ECONOMY

JULY 2023

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INVISIBLE HANDS: ENABLING PACIFIC WOMEN IN THE INFORMAL ECONOMY

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ABBREVIATIONS

ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
COVID-19	coronavirus disease
DfCDR	Department for Community Development and Religion (Papua New Guinea)
DMC	developing member country
GDP	gross domestic product
ICT	information and communication technology
IFC	International Finance Corporation
ILO	International Labour Organization
ILOSTAT	International Labour Organization Department of Statistics
MSMEs	micro, small, and medium-sized enterprises
PNG	Papua New Guinea
PSDI	Pacific Private Sector Development Initiative
RBV	Reserve Bank of Vanuatu
SMEs	small and medium enterprises
SPC	Secretariat of the Pacific Community
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNICEF	United Nations Children’s Fund
WBES	World Bank Enterprise Survey

CURRENCIES

F\$	Fiji Dollar
K	Papua New Guinea Kina
SI\$	Solomon Islands Dollar
ST	Samoa Tala
T\$	Tonga Pa'anga
US\$	United States Dollar
Vt	Vanuatu Vatu

EXECUTIVE SUMMARY

The private sector in the Pacific is typically characterized as small or emerging. Such characterizations, however, reflect the scale of the formal private sector—registered businesses, and employees whose roles are subject to national labor legislation, taxation, and leave benefits. In addition to the formal private sector, there is a large and persistent informal sector.

The Pacific private 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. 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. Likewise, definitions of the private sector should include the informal economy.

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. It provides employment, livelihoods, and services that are critical for the region’s geographically dispersed population, and is directly and indirectly linked to the Pacific formal economy.

While Pacific men and women both operate in the informal economy, women enjoy fewer opportunities to gain formal employment, face additional responsibilities for unpaid care, and experience gendered barriers to formalization. As noted by the International Labour Organization (ILO), “women face structural and social barriers in access to credit, technology, business services, training, and the market compared to men. Such factors impact their capacity to start formal businesses or grow their enterprise to a point where formalization is feasible” (ILO 2022A).

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. In addition, women’s unpaid care and domestic work underpins and facilitates the ability of others to participate in the formal and informal economies.

As part of the informal economy, women business owners and employees play a vital role in the Pacific private sector by providing employment, generating incomes, and contributing to economic development. They also contribute to tax revenue through indirect and presumptive taxes, and 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.

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. For example, women may join the informal economy as a survival strategy in times of shock or crisis, or on a short-term basis to meet the financial needs of their families and communities (e.g., for costs such as school fees). Women may also diversify their informal business activities to increase their earnings or scale up their operations. However, women operating informally, like men, are typically covered by neither government social protection mechanisms nor retirement fund schemes.

Women employed in the informal economy or operating informal businesses also face increased vulnerability. Women are concentrated in the lowest-paid and most vulnerable roles and are overrepresented as contributing family workers and domestic workers. Additionally, women operating businesses informally avoid some of the costs associated with being formal, such as taxation, but also miss out on the benefits provided by formal business registration, such as access to government stimulus packages. This is problematic because women's businesses are disproportionately impacted by disruption and crisis. Relative to formal businesses, women who are operating informal businesses do not have a distinct legal entity; have less access to finance, markets, and suppliers; and have less access to legal recourse.

Women experience gendered barriers to business registration, formalization, and operation. There are costs associated with registration, including registration fees and ongoing compliance and reporting. For some women, the benefits they experience from registration—such as increased access to finance, markets, and suppliers—do not outweigh these costs.

Challenges in accessing finance and markets, for example, persist for Pacific women after business registration. These registered businesses may also face barriers in terms of access to training, business support, and compliance with legal and reporting requirements. Furthermore, not all business models work equally well for women in Pacific island contexts. More successful models for encouraging women's entrepreneurship may include those which enable collaboration among community members; facilitate the use of community-held assets for business operations; and accommodate women's responsibilities in the home, church, and community.

Working in the informal economy suits many women's constraints and preferences. Women can quickly and simply start and scale up informal businesses to meet the needs of their families, or to support their community contributions. Informal business activities also provide women with a means of balancing their commitments and responsibilities in paid and unpaid work. Some women are unlikely to ever wish to formalize their businesses.

OUTPUT OF INFORMAL ECONOMY (ESTIMATED EQUIVALENT PERCENTAGE OF FORMAL GDP – AVERAGE 1993–2016)

Informal economy output estimated to be equivalent to **32.9%** of official GDP in Fiji

Informal economy output estimated to be equivalent to **35.4%** of official GDP in Papua New Guinea

Informal economy output estimated to be equivalent to **32.5%** of official GDP in Solomon Islands

Source: Author's calculation, drawing on 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."

WOMEN'S UNPAID CARE—A SNAPSHOT

In Papua New Guinea, women work on average nearly **twice as many hours** as men

In Tonga, women spend **50% more hours** than men on non-economic activities each week

Fijian women undertake **2–3 times more unpaid care work** than men in their lifetimes

Source: Pacific Community (SPC). 2017. *Women's Economic Empowerment in the Pacific. Regional Overview*.

**INFORMAL EMPLOYMENT RATE BY SEX
(SHARE OF INFORMAL EMPLOYMENT IN
TOTAL EMPLOYMENT)***

	Men	Women
Cook Islands	28%	30%
Fiji	45%	42%
Samoa	55%	49%
Tonga	83%	78%
Vanuatu	71%	74%

* See Figure 2 (page 7).

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.

Governments should undertake work to better understand the needs, expectations, and preferences of businesses operated by women, recognizing that women are a heterogeneous group. Building an enabling environment for the informal economy is central to creating greater opportunities for women to participate in, and benefit from, private sector development in the Pacific. The current lack of information about the informal economy hinders the understanding of policymakers, government officials, the private sector, and the public about social and economic issues related to informal economic activity (ADB 2011). Understanding and supporting informal businesses is also necessary to achieve the goals of Pacific governments for economic growth driven by small and

medium-sized enterprises (SMEs). For example, the Papua New Guinea (PNG) SME Master Plan 2016–2030 and SME Policy 2016 seek to support and facilitate the growth of SMEs, with a specific target to grow the number of PNG SMEs from 49,500 to 500,000 by 2030.

Collecting, analyzing, and disseminating sex- and age-disaggregated data on the informal economy is also critical to develop and implement policies and programs (Bonnet et al. 2019). National statistics offices could consider multiple approaches to data collection, such as

- (i) special surveys on the informal sector;
- (ii) regular surveys with expanded coverage, such as labor force or other household surveys;
- (iii) establishment/enterprise surveys; and
- (iv) mixed household-enterprise surveys (ADB 2011).

Data collection and time-use surveys should also capture evidence about how Pacific men and women move between formal, informal, unpaid care, and subsistence activities.

Pacific countries should also explore the potential collection of data on the subsistence, domestic, and care activities and contributions of informal employees in formal enterprises. Government and national statistics offices should also consider the creation of incentives to increase data collection, as well as the potential to integrate data collection into online registry platforms.

Informal sector enterprises are important in supporting women’s economic participation and income generation. Addressing the barriers that women in the informal economy face in establishing and growing productive, competitive businesses should be considered as part of broader approaches to private sector development.

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 that 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.

1 INTRODUCTION

Invisible Hands: Enabling Pacific Women in the Informal Economy is the first in a series of Pacific Private Sector Development Initiative (PSDI) reports focused on the role of women in the informal economy in the Pacific.

In 2004, Holden et al.'s *Swimming Against the Tide* report noted the complexity of defining the private sector, and the unresolved issues of “whether the informal sector should be counted as belonging to the ‘private sector’” and “the role of subsistence and cash crop agriculture and fishing” (ADB 2004). It also acknowledged the challenges of measuring the private sector, given the potential omission of output generated by the informal economy.

Since 2004, Pacific countries have undertaken many reforms and initiatives to support formalization, yet the informal economy has persisted. *Invisible Hands* argues that the informal sector should be considered a vital and enduring part of the Pacific private sector, and that building an enabling environment for the informal economy is central to creating greater opportunities for women to participate in, and benefit from, private sector development.

There are many approaches to defining the informal economy. The approach taken by this report is outlined in Box 1 (page 2).

Section II of this report presents data on the characteristics of the Pacific informal economy and global informal economy. This data highlights gender gaps in labor force participation rates and the informal

employment rate, and shows that women in developing economies are overrepresented in informal employment and more likely than men to be in the lowest-paid, most vulnerable positions. The section also presents data on the economic output of the informal economy, and linkages between the informal and formal economy.

Section III covers the benefits and costs of formalization in the Pacific. It outlines current formalization processes and policies, and the benefits of formalization for economies, workers, and businesses. It also describes the costs of formalization and outlines some of the barriers that exist to formalization.

Section IV focuses on the role of the informal economy in supporting entrepreneurship and employment for women, the capacity of the informal economy to provide income-earning opportunities for women, and the ways in which the informal economy can meet the preferences of some women entrepreneurs. Section V concludes the report and provides recommendations. Additionally, the Appendix contains an overview of the types of business entities that exist in the Pacific, and analysis of how these entities meet the needs of different types of women entrepreneurs.

BOX 1: DEFINING THE INFORMAL ECONOMY

The informal economy includes informal businesses and informal workers. According to the International Labour Organization (ILO), the informal economy constitutes “all economic activities by workers and economic units that are—in law or in practice—not covered or insufficiently covered by formal arrangements”.

A wide range of jobs and activities form part of the informal economy. These are activities with no work-based social protection, including street-side sales, market stalls, domestic work, short-term contract work, and home-based production (Bonnet et al. 2019). For women in the Pacific, this could include street vending, sewing *meri blouses*, child-minding or babysitting, growing and selling taro, fabricating *tapa*, baking cakes or frying *gato*, or running a store.

The informal sector includes units (enterprises or own-account operators) which are “engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, 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 person and social relations rather than contractual arrangements with formal guarantees” (ILO 2013 in ILO 2022A).

There are multiple definitions of informality. Statistical definitions of informal employment are being considered by the Working Group on the Review of Informality Statistics, and the 21st International Conference of Labour Statisticians in 2023 will discuss and adopt new standards.

Much of the data presented in this report draws on the ILO Labour Force Statistics, which define informal employment and informal enterprises as follows:

A. INFORMAL EMPLOYMENT

Informal employment comprises persons who, in their main or secondary jobs, are:

- (i) Own-account workers, employers, and members of producers’ cooperatives employed in their own informal sector enterprises. The informal nature of their jobs follows directly from the characteristics of the enterprise.
- (ii) Own-account workers engaged in the production of goods exclusively for own final use by their household (e.g., subsistence farming or do-it-yourself construction of own dwellings), if covered.
- (iii) Contributing family workers, irrespective of whether they work in formal or informal sector enterprises. The informal nature of their jobs is due to the fact that contributing family workers usually do not have explicit, written contracts of employment, and that usually their employment is not subject to labor legislation, social security regulations, or collective agreements.

Continued >

CONTINUED **BOX 1: DEFINING THE INFORMAL ECONOMY**

- (iv) Employees holding informal jobs, whether employed by formal sector enterprises, informal sector enterprises, or as paid domestic workers by households. Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labor legislation, income taxation, social protection, or entitlement to certain employment benefits (e.g., paid annual leave or sick leave) for reasons such as non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g., for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee's place of work is outside the premises of the employer's enterprise (e.g., outworkers without an employment contract); or jobs for which labor regulations are not applied, not enforced, or not complied with for any other reason. Operational criteria used by countries to define informal jobs of employees include:
- (a) lack of coverage by social security system,
 - (b) lack of entitlement to paid annual or sick leave, and
 - (c) lack of written employment contract.

B. INFORMAL ENTERPRISES

An informal sector enterprise satisfies the following criteria:

- (i) It is an unincorporated enterprise, which means that
 - (a) it is not constituted as a legal entity separate from its owners,
 - (b) it is owned and controlled by one or more members of one or more households, and
 - (c) it is not a quasi-corporation. It does not have a complete set of accounts, including balance sheets.
- (ii) It is a market enterprise, which means that it sells at least some of the goods or services it produces. Therefore, it excludes households employing paid domestic workers.
- (iii) At least one of the following criteria:
 - (a) The number of persons engaged/employees/employees employed on a continuous basis is below a threshold determined by the country.
 - (b) The enterprise is not registered.
 - (c) The employees of the enterprise are not registered.

Sources: ILO. No date. *Informality* (<https://ilostat.ilo.org/resources/concepts-and-definitions/description-labour-force-statistics/>) and *Informal economy workers* (<https://www.ilo.org/global/topics/wages/minimum-wages/beneficiaries/>); ILO. 2022a. *Engendering informality statistics: gaps and opportunities*. Geneva; ILO. 2013. *Measuring informality: A statistical manual on the informal sector and informal employment*. Geneva; and 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).

2 PACIFIC INFORMAL ECONOMY

Informality is part of the daily lives of many workers around the world, and its associated risks and vulnerabilities are a considerable policy challenge with consequences for social and economic development.

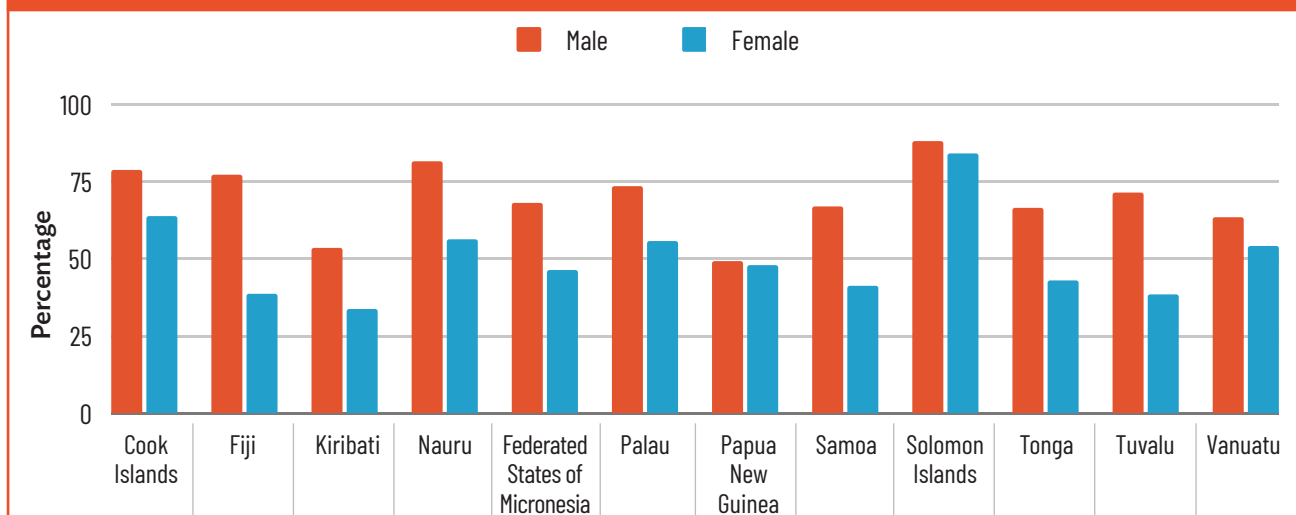
Countries with large informal economies are characterized by what the International Labour Organization (ILO) labels “severe decent work deficits”, with workers and businesses enduring limited or absent social protection, limited voice, poor working conditions, low productivity, and poor governance. Addressing these risks and vulnerabilities is central to reducing social inequalities and supporting economic growth (ILO 2022A).

Women in developing economies are overrepresented in the informal economy, and are more likely than men to be in its lowest-paid and

most vulnerable roles. The ILO estimates that more than 60% of the world’s employed population—two billion people—earn their livelihoods in the informal economy (ILO 2018). Informal enterprises account for four out of every five enterprises in the world (ILO 2018), yet data on these enterprises is limited.

Pacific island economies are typically characterized by small formal sectors with employment in the public sector, tourism, manufacturing, and resources, alongside a much larger informal sector dominated by subsistence agriculture (ILO 2014).

FIGURE 1: LABOR FORCE PARTICIPATION RATE BY SEX (PERCENTAGE, ANNUAL)



Source: ILOSTAT. Last updated 17 July 2022. Harmonized series based on Cook Islands Labour Force Survey 2019; Fiji Employment, Unemployment Survey 2016; Federated States of Micronesia Household Income and Expenditure Survey (HIES) 2014; Kiribati Population Census 2015; Nauru HIES 2013; Palau HIES 2014; Papua New Guinea HIES 2010; Solomon Islands HIES 2013; Tonga Labour Force Survey 2018; Tuvalu HIES 2016; Vanuatu HIES 2019; and Samoa Labour Force Survey 2017.

BOX 2: DATA LIMITATIONS

Five of the Asian Development Bank's (ADB) 14 Pacific developing member countries (DMCs) have internationally comparable, harmonized data available for all nine of the informal economy indicators of the International Labour Organization (ILO).^a This data is primarily obtained through national Labor Force Surveys and ILO datasets. However, there are limitations with the existing data, including:

- (i) **Suitability of definitions for the Pacific context.** Existing approaches tend to report on a person's "main job", which does not capture how many people are employed formally and informally. Reliance on a "main job" also insufficiently captures how many people are employed in subsistence activities for their own use, regardless of whether they are employed in the formal and/or informal economies.
- (ii) **Lack of comparability between countries.** The countries that collect data generally use national definitions and employ different methods of data collection, making comparability across countries and regional aggregation difficult (ADB 2011). For this reason, much of the data in this section is restricted to five countries only.
- (iii) **Insufficient information about informal businesses.** Labor force data provides insight into self-employment and own-account workers, but does not capture informal enterprise or business perspectives, especially regarding their size, employment, investments, borrowings, access to credit, cost of doing business, challenges faced, and reasons for not formalizing. The enterprise surveys largely view informal business from a formal business lens. Tonga and Vanuatu are exceptions to this limitation (Boxes 3 and 4).
- (iv) **Contribution to gross domestic product.** There are some studies that provide broad overviews of the informal economy or estimates of informal output. However, due to lack of data, most of the information is either "guess" estimates or offers a narrow definition that fails to capture the true extent of informality in Pacific DMCs.
- (v) **Gaps.** Significant data gaps exist among Pacific DMCs, and few countries regularly collect data on the informal economy (ADB 2011). Even where data is collected, it may not be accurate. The data that exists is impacted by "gender bias in participation and reporting in household surveys" (ILO 2022A). Respondents may not keep records or willingly share details of their earnings activities (refer to, for example, Fakaia 2000).
- (vi) **Resource constraints.** National statistics offices in the Pacific face resource constraints. This complicates the collection of important new sources of data, such as data on unpaid care or the informal economy.

^a The ILO indicators are (i) Sustainable Development Goal indicator 8.3.1 – Proportion of informal employment in total employment by sex and sector (%), (ii) informal employment by sex (thousands), (iii) informal employment by sex and age (thousands), (iv) informal employment by sex and status in employment (thousands), (v) informal employment by sex and economic activity (thousands), (vi) informal employment rate by sex (%), (vii) informal employment rate by sex and age (%), (viii) informal employment rate by status in employment (by sex) (%), and (ix) informal employment rate by sex and economic activity (%).

Sources: ADB. 2011. *A Handbook on Using the Mixed Survey for Measuring Informal Employment and Informal Sector*. Manila; M. Fakaia. 2000. *Bisnis belong olgeta mere long Honiara, Solomon Islands*. Research Project, Massey University; ILO. 2022a. *Engendering informality statistics: gaps and opportunities*. Geneva; ILO. No date. *Labour statistics for the Sustainable Development Goals (SDGS)*. <https://ilostat.ilo.org/topics/sdgl/>.

This section presents global and Pacific data on the informal economy, with particular focus on the five Pacific island countries for which harmonized, internationally comparable International Labour Organization Department of Statistics (ILOSTAT) data on informal employment is available (Box 2).¹

Sex-disaggregated data is presented wherever possible, highlighting the importance of the informal economy for women in the Pacific as employees and business owners.

A. LABOR FORCE PARTICIPATION IN THE PACIFIC

Labor force participation rates—the proportion of a country’s working age population that is either working or looking for work—are generally low in the Pacific, particularly for women (Figure 1).² Rates of labor force participation are highest in the Cook Islands, Palau, Solomon Islands, and Vanuatu. The overall labor force participation rate is less than 50% in Kiribati, the Marshall Islands, Papua New Guinea (PNG), Samoa, and Tonga (ILO 2020).

Women’s labor force participation is greatest in the countries with the highest overall labor force participation (ILO 2020). Women’s labor force participation rates range from 34% in Kiribati to 84% in Solomon Islands, with gender gaps in labor force participation rates apparent in all countries.

B. INFORMAL EMPLOYMENT

Informal employment comprises:

- (i) informal employment in the informal sector.
- (ii) informal employment in the formal sector.
- (iii) informal employment in households.

People employed in informal enterprises include employers, employees, own-account workers, and contributing family workers. Informally employed employees and contributing family workers are those workers who do not have a formal contract, and do not receive social protection contributions or paid annual and sick leave. In households, informal employees are those producing goods for their own consumption and paid domestic workers who are not covered by the social security system and are not entitled to paid annual leave or sick leave. In the formal sector, “employees are considered to have informal jobs if their employment relationship, is in law or practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits” such as paid annual or sick leave (ILO undated).

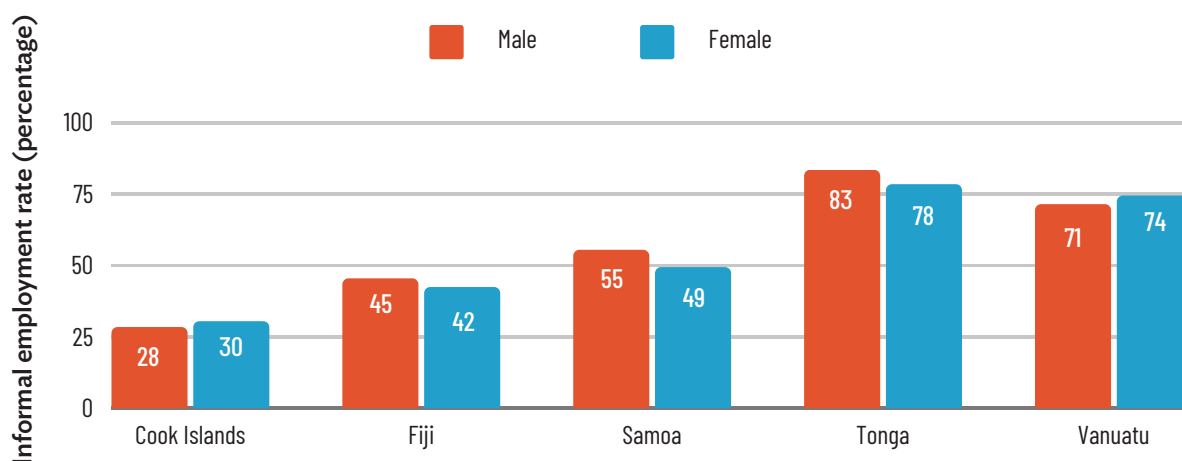
Women in developing countries are overrepresented in informal employment compared with men. For women in developing countries, informal employment accounts for 92% of all employment, compared with 87% of all employment of men in developing countries (Bonnet et al. 2019).³

1 Cook Islands, Fiji, Samoa, Tonga, and Vanuatu.

2 The ILO definition for the labor force participation rate is as follows: “The number of persons in the labor force as a percentage of the working-age population. The labor force is the sum of the number of persons employed and the number of persons unemployed. Thus, the measurement of the labor force participation rate requires the measurement of both employment and unemployment. Employment comprises all persons of working age who during a specified brief period, such as 1 week or 1 day, were in the following categories: a) paid employment (whether at work or with a job but not at work); or b) self-employment (whether at work or with an enterprise but not at work). The unemployed comprise all persons of working age who were: a) without work during the reference period, i.e., were not in paid employment or self-employment; b) currently available for work, i.e., were available for paid employment or self-employment during the reference period; and c) seeking work, i.e., had taken specific steps in a specified recent period to seek paid employment or self-employment”.

3 This includes informal employment in the informal sector, in the formal sector, and in households. “Informal employment in the formal sector include employees and contributing family workers in formal enterprises that do not receive social protection contributions” and informal employees in household are domestic workers “who do not receive social protection contributions from their employers” (Bonnet et al. 2019). If information about social protection contributions is not available, the determination is based on whether the employees receive paid annual and paid sick leave. Own account workers are people who produce goods exclusively for final use within their household, such as agricultural production for household consumption, making clothing for members of the household or building their own house. Contributing family workers are people who work in enterprises owned by members of their family, which can be in the formal or informal sectors, but do not have employment contracts, and whose employment “is not subject to labour legislation, social security regulations, or collective agreements” (ILOSTAT).

FIGURE 2: INFORMAL EMPLOYMENT RATE, PERCENTAGE OF TOTAL EMPLOYMENT BY 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.

Among the five Pacific countries included in the ILO harmonized series for informal employment, the total informal employment rate (the proportion of employed people in the informal economy) varies from 81% in Tonga to 29% in the Cook Islands. The informal employment rate is higher for women than men in the Cook Islands (30% for women and 28% for men) and Vanuatu (74% for women and 71% for men), while in Fiji, Samoa, and Tonga, the informal employment rate is higher for men than for women (Figure 2).

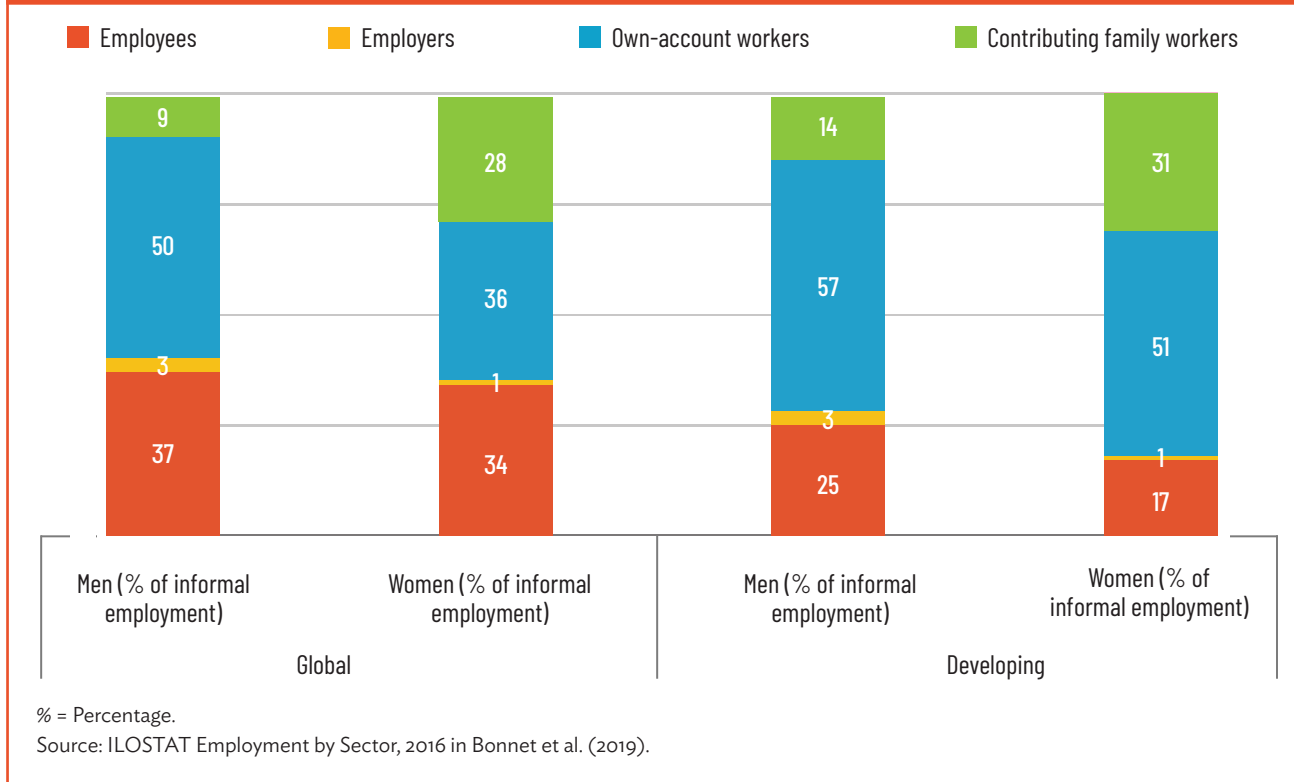
However, the data on informal employment does not capture the movement and fluidity in informal employment. There is a continuum between formal and informal economic relations, and workers and enterprises can move along the continuum (Chen 2007). Many Pacific women and men engage simultaneously and/or sequentially in multiple economic activities, combining subsistence activities, barter exchange, employment and/or entrepreneurship in the formal and informal economies, and/or temporary or permanent overseas migration for work. For example, many people

engaged in formal employment may also engage in agricultural or subsistence activities at various times to generate additional cash income or meet various social obligations (World Bank 2014). The movement of workers between the formal and informal economy was evidenced in a 2018 National Audit of the Informal Economy in PNG, which found that 90% of all households received at least some income from the informal economy, and that workers employed in the formal economy also undertook informal employment after hours to supplement their wages (DfCDR 2019).

C. MEN AND WOMEN IN THE INFORMAL ECONOMY

Men and women are engaged in the informal economy in different ways. Women in the informal economy are concentrated in the most vulnerable situations, including domestic workers, home-based workers, or contributing family workers. Compared to men, women in the informal economy are underrepresented as employees and employers (Figure 3).

FIGURE 3: COMPOSITION OF INFORMAL EMPLOYMENT BY SEX AND COUNTRY INCOME GROUP, 2016 (INCLUDING AGRICULTURE)



Contributing family workers work in economic enterprises operated by a relative, and are usually unpaid (ILO 2018). Globally, the proportion of informal workers who are contributing family workers is three times higher for women (28%) than men (9%) (ILO 2018). The absence of payment for these roles has “implications for the decision-making power in the household” (Moussié et al. 2021), and may reflect “gender norms that make it more likely for women working in family enterprises to not be involved in decisions on how that business is run” (ILO 2022A).

Household-based workers “are the most invisible among informal workers” (Carré 2018). Domestic workers undertake tasks such as cooking, cleaning, or gardening in households, as well as caring for children or older people (ILO 2021). Women make up 76% of the 76 million domestic workers globally (ILO 2021), and more than 80% of all domestic workers are in

informal employment (ILO 2021). In two thirds of the countries included in a 2021 ILO study, women domestic workers were more exposed to informality than men domestic workers (ILO 2021). Informal domestic workers are more likely than formal workers to be working extremely long hours, and lack social and labor protections because of legal exclusions or implementation gaps (ILO 2021). Domestic workers, particularly those who are employed informally, are vulnerable to exploitation and abuse. Migrant domestic workers are particularly at risk.

Women are overrepresented in lower-paying roles in the informal economy relative to men (Chen 2007), and earn less than men when undertaking the same activities. For example, women domestic workers in informal employment earn 35% of the average monthly earnings of formal employees, while the earnings of men domestic workers are 44% of the average monthly

earnings of formal employees (ILO 2021). Challenges relating to gender gaps in pay are also apparent for women entrepreneurs in the informal sector because “entrepreneurship in the informal sector ... reinforces the inequalities in the formal labour market” (Williams 2014). For example, a study across European Union member states found that women’s average hourly wages as informal entrepreneurs were 69% of those that men earned as informal entrepreneurs (Williams 2014). Gender pay gaps in the informal economy, and the increased likelihood of women working part-time or for limited hours, mean that women are more at risk of working poverty (Possan et al. 2020).

In addition, women undertake most unpaid care work (ILO 2022A). This includes direct, personal care activities such as feeding or bathing a child, and indirect care activities such as cooking and cleaning (Moussié et al. 2021). Women’s disproportionate responsibility for unpaid care work is a factor in many women’s decision to engage in flexible, low-paid informal employment (Moussié et al. 2021). Worldwide, one third of women employees in informal employment do so part-time, and more than a quarter are temporarily employed (ILO 2018).

In addition to their paid work in the formal or informal economy, economically active women have a “double workday”, combining home and caring responsibilities with their economic activities. For example, in 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 (SPC 2017). Over the course of their lives, Fijian women spend 2–3 times more time on unpaid care work than men, with the greatest disparity occurring among working-age women (25–44 years).⁴

The disruptions of coronavirus disease (COVID-19) heightened gendered divisions in unpaid care and domestic work. Women’s responsibilities for unpaid care and domestic work increased due to “global market disruptions, higher vulnerability of

women’s jobs, and pandemic-driven rises in unpaid care and domestic work burdens”, and many women were “pushed out of labor markets and into unpaid household work” (ADB and UN Women 2022). An Asian Development Bank (ADB) and UN Women report noted that women across the Asia and Pacific regions do most of the cooking and cleaning in 88% and 82% of cases respectively (ADB and UN Women 2022). Almost one quarter (24%) of women reported that, since the onset of COVID-19, they spend “most time feeding, cleaning, and providing medical care for children”, compared with 15% of men (ADB and UN Women 2022).

In addition to their domestic roles, many Pacific women are engaged in agriculture, fishing, handicraft, and other activities that provide cash income, as well as the income represented by women’s subsistence activities uncounted in official statistics. For example, the 2020 Fiji Agricultural Census found that 61% of women in agricultural households work in agricultural value chains, and represent 47% of all household members so engaged. However, only 14% of those women are classified as “farmers”, i.e., they consider crop cultivation and raising livestock their primary or secondary occupation (Government of Fiji 2021).

D. AGE AND INFORMALITY

Consistent with global data, the informal employment rate is highest among younger and older people in the Pacific (Figure 4). Among youth (15–24 years old), Tonga (84%) and Vanuatu (82%) have the highest informal employment rates. In all five developing member countries (DMCs), the rate of informal employment is higher for young women than men. The gender gap in Fiji’s youth informal employment rate is particularly high at 49% of total employment for men aged 15–24, compared with 24% of total employment for women.

4 The data were sourced from the SPC Pacific Data Hub that collected data from the Fiji Bureau of Statistics based on the 2015–2016 Employment and Unemployment Survey.

BOX 3: INFORMAL BUSINESSES IN TONGA: INSIGHTS FROM THE 2021 NATIONAL SURVEY OF INFORMAL BUSINESSES

The Tonga Ministry of Trade and Economic Development's Informal Business Survey aimed to map informal business activities and identify constraints to business growth and formalization, informing government programs and services offered to businesses. The Tonga Informal Business Survey 2021 report contains data on 2,301 informal business activities across 1,519 households, and finds:

REASON FOR ESTABLISHING A BUSINESS

- (i) The most common reasons for starting a business were better income (94%) and a preference for self-employment (50%).
- (ii) 80% of informal business operators indicated that the primary purpose of their business was selling goods with some home consumption. Businesses owned and/or operated by women were most likely to be oriented towards sales-only, while men were more likely to operate businesses for home consumption.

BUSINESS ACTIVITY

- (i) 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.
- (ii) 56% of informal businesses surveyed were operated by women and concentrated in small-scale manufacturing, such as producing mats, tapa, and ta'ovala. Businesses owned and/or operated by men were oriented towards agricultural activities, with men running 95% of root crop and kava businesses.
- (iii) The vast majority (over 80%) of informal businesses in Tonga reported that their customers were local, while 35% of businesses exported their products.

INFORMAL BUSINESS EMPLOYMENT

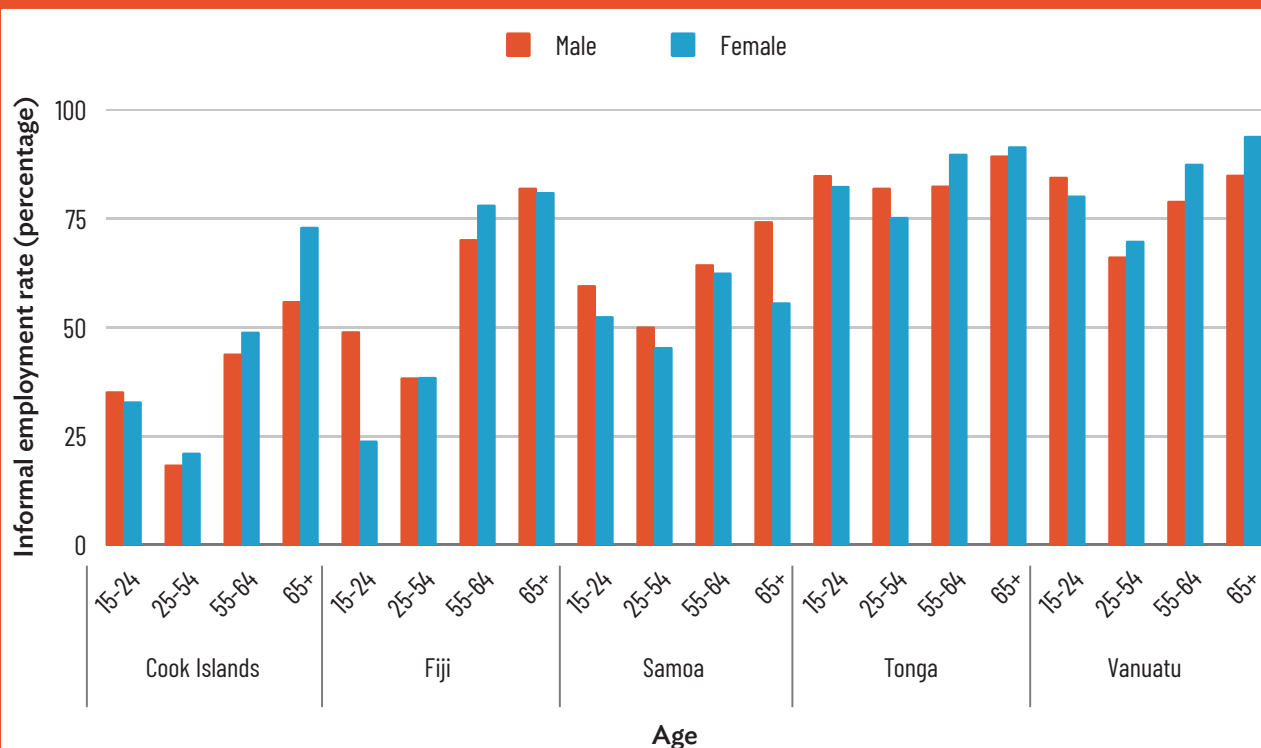
- (i) More than 80% of businesses have no employees. For those with employees, the number is between one employee and three employees. Of the workers in these informal businesses:
 - (a) 63% are male.
 - (b) 60% are non-family members, 20% are household members, and 20% are extended family members.
 - (c) Almost half of these workers are paid in kind and, of those who earn wages, 60% earn between T\$1–T\$100 each week and 30% between T\$101–T\$200 each week.

BUSINESS REVENUE AND COSTS

- (i) 81% of businesses made a profit.
- (ii) Highly profitable businesses are more prevalent among businesses operated by men, with businesses owned and/or operated by women more likely to have small or medium-sized profits.
- (iii) Businesses owned and/or operated by women tend to have lower costs than businesses by men, which may stem from the types of businesses that men and women operate (e.g., their need for certain machinery or equipment).

Source: Government of Tonga, Ministry of Trade and Economic Development. 2022. *Tonga Informal Business Survey 2021*. Nuku'alofa.

FIGURE 4: 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.

For women, informal employment rates are highest for women 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. The patterns of informal employment rates and ages for men are broadly similar to those of women. 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 (PSDI 2022).

E. 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 DMCs have collected data on informal enterprises, including PNG, Tonga, and Vanuatu. Such data is critical for effective policy making.

BOX 4: INSIGHTS FROM VANUATU'S 2016 NATIONWIDE SURVEY OF MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES

The Reserve Bank of Vanuatu (RBV) and Alliance for Financial Inclusion (AFI) undertook a nationwide survey of 192 formal micro, small, and medium-sized enterprises (MSMEs) and 547 informal MSMEs in 2016. The survey defined informal MSMEs as “businesses that are registered with local authorities (provincial councils) with an annual turnover of less than Vt4 million, with no permanent salary workers”. These businesses are not registered with the Value Added Tax Office (RBV and AFI, 2016). As the survey report notes, “businesses which are not registered with any formal institutional structures were excluded”. The survey found:

- (i) Informal MSMEs are particularly prevalent in rural areas, accounting for 94% of MSMEs. In urban areas, 66% of MSMEs were informal.
- (ii) The urban/rural difference in the prevalence of informal MSMEs may reflect differences in business operations, with rural MSMEs more focused on meeting “family basic needs”.
- (iii) Men dominate the Vanuatu MSME sector, accounting for 60% of owners, while 20% of businesses are owned by women alone.^a
- (iv) A higher number of women are engaged in informal than formal MSMEs. Among all women who responded to the survey, 21% were engaged in informal MSMEs—more than double the rate of engagement in formal MSMEs (10%).
- (v) 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.
- (vi) The MSMEs captured in the survey fell into four structures: sole proprietors, partnerships, companies, and trusts. Some 82% of informal MSMEs were sole proprietors, with 14% owned by a family.^b
- (vii) Informal MSMEs tended to be newer than formal MSMEs. The survey found 29% of informal businesses were registered between 2 and 5 years ago, whereas 45% of formal MSMEs have been registered for 10 years or more.
- (viii) Informal MSMEs indicated a need for finance and business capital, with 33% reporting they needed savings and 34% indicating they needed a loan.
- (ix) Compared to formal MSMEs, informal MSMEs were less likely to seek or obtain finance. The survey found that 9% of informal MSMEs had applied for a loan from a commercial bank and received the requested funds, while 80% of informal MSMEs did not apply for funding. Some 13% of informal MSMEs reported successfully applying to other financial institutions for funds.
- (x) The survey also collected information about the most pressing problems businesses faced. For MSMEs in rural areas—most of which are informal—31% indicated competition was their most pressing problem, followed by finding customers, which was raised by 24% of rural MSMEs.

^a The remaining businesses were owned by business associates (1%), shareholders (4%), or by families (15%).

^b The remaining informal MSMEs were owned by shareholders (3%) or took other ownership forms (1%).

Source: 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.

For example, in recognition of the informal sector's important role in employment creation, production, and income generation, the Ministry of Trade and Economic Development in Tonga commissioned a national informal business survey in 2021 (Box 3). Vanuatu, meanwhile, included formal and informal enterprises in a 2016 nationwide survey of MSMEs. The respondents comprised 192 formal MSMEs and 547 informal MSMEs (RBV and AFI 2016) (Box 4).

F. OUTPUT AND CONTRIBUTION OF THE INFORMAL ECONOMY

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. Measuring the informal economy is difficult (Ohnsorge and Shu 2022).

Model-based estimates of the output of the informal economy as a share of gross domestic product (GDP) are available for Fiji, PNG, and Solomon Islands (Figure 5). These estimates show that between 1993 and 2016, informal sector output was, on average, equivalent to 32.9% of official GDP in Fiji, 35.4% of official GDP in PNG, and 32.5% of official GDP in Solomon Islands.⁵

By comparison, the PNG mining industry, often characterized as “immense”, contributes about 26% of GDP (PNG Report 2017), while the country's coffee industry represents about 6% of GDP and has a specific ministry focused on its expansion (Papua New Guinea Today 2022). PNG's National Audit of the Informal Economy was undertaken through face-to-face interviews and a randomized phone survey, garnering responses from about 3% of all people involved in the country's informal economy. The audit revealed that the informal economy is worth about K12 billion (DfCDR 2018).

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). Pacific informal businesses often have direct or indirect linkages to formal businesses across value and supply chains, such as when large domestic companies or government agencies subcontract production to informal businesses or buy their goods directly.

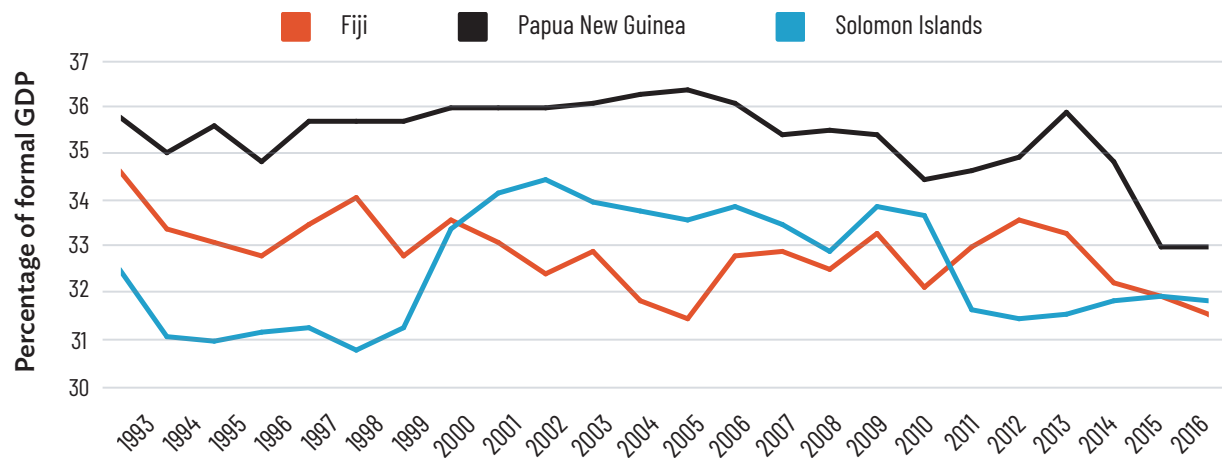
Informal economic activity also contributes indirectly to taxation revenue. Many of the inputs to informal sector businesses (inventory, fuel, electricity, etc.) have been subject to indirect tax upon purchase. Income earned through informal business can be spent in the formal economy, contributing to goods and services taxation revenue. As consumers, women who earn money in the informal economy pay value-added taxes, customs duties, and good and services taxes (Rogan 2019). The National Audit of the Informal Economy in PNG also highlights the role of the informal economy in providing services to local communities that are affordable and accessible, particularly in terms of access to food (DfCDR 2019).

In addition to their contributions as informal business operators and employees, women's unpaid care work underpins and enables the formal economy. Women's contributions to housework, cooking, and caring for children or other household members, among other activities, are not part of calculations of GDP. Women in developing countries spend more than 4 hours per day doing unpaid household and care work, compared with about 1.5 hours for men.⁶ Women in the Asia-Pacific spend more time working than women anywhere else in the world, and also undertake 80% of the unpaid care work (Mathew et al. 2019). Globally, the annual unpaid work of women aged 15 and over is valued at US\$10.8 trillion, based on assigning minimum wage to the hours spent undertaking this work (Oxfam 2020).

5 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.

6 UN Women. No date. *Unpaid Work*. <https://interactive.unwomen.org/multimedia/infographic/changingworldofwork/en/index.html>.

FIGURE 5: ESTIMATES OF INFORMAL SECTOR OUTPUT IN FIJI, PAPUA NEW GUINEA, AND SOLOMON ISLANDS, 1993-2016



GDP = gross domestic product.

Source: Multiple indicators multiple causes model-based estimates of informal output (Percentage 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.

Internationally comparable data on the informal economy, and information about informal businesses, is limited. The informal economy in the Pacific provides employment and livelihoods for more than half the working population in some DMCs and is particularly important for women’s employment and business opportunities, particularly for older and younger women. Like women globally, Pacific women operating informally experience risks and costs, including lower incomes, lack of social protection, and vulnerability to violence.

In addition, the discrimination and challenges that women face in business in the formal economy are amplified for those operating informally. As noted in an ILO (2022b) report:

The problems that women contend with within regulated environments—discrimination, segregation, unequal pay—are amplified in the informal economy, where scarcity of assets, technology, and productive resources limit their working prospects. Moreover, the lack of access to social protection, low remuneration, poor working conditions, and the lack of organization that characterize informal employment are accentuated for women.

3 BENEFITS AND COSTS OF FORMALIZATION IN THE PACIFIC

Formalization is the process of registering businesses with government, either through provincial or national institutions or agencies. Formalization can provide benefits to economies, workers, and businesses, but also imposes costs, and not all businesses have the capacity, resources, or desire to formalize.

There is a need to streamline business entry requirements to encourage private sector development. This is particularly important for women, who are more likely to struggle with costly and complex processes or find that available business entities differ from their preferences. This section provides an overview of the benefits and costs of formalization, as well as existing barriers.

A. FORMALIZATION

The distinction between formal and informal enterprises is not necessarily clear-cut, and there is a range of business structures and business registration processes in the Pacific. A business owner may be required to comply with registration requirements at multiple levels and engage with multiple government departments or offices. For example, a woman operating a business as a sole trader in PNG is required to obtain a trading license from the provincial government and a tax identification number, but is only required to register a business name if she is not trading in her own name. Companies, business groups, and cooperatives, on the other hand, are required to have a trading license from the provincial government, obtain a tax identification number, and register with the PNG Investment Promotion Authority. Businesses in certain sectors, such as coffee or fisheries, may require additional licenses. In contrast, a woman operating a small market stall that sells agricultural produce may be deemed compliant with registration requirements if she has paid a stall fee.

Formalization policy in larger Pacific DMC economies, as well as government support for the establishment and growth of businesses, is outlined in MSME policy and legislation. MSME policies are in place in five DMCs, but only a few of these policies include specific provisions to support the transition of informal businesses to the formal economy or target support to businesses owned 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 Pacific MSME growth. For example, the PNG SME Master Plan 2016–2030 and the SME Policy 2016 seek to support the establishment of 500,000 SMEs by 2030, which is a considerable increase from a base of 50,000. In Samoa, the Samoa MSME Development Policy and Strategy 2020 includes eight long-term objectives, including to “increase the number of women-owned MSMEs”. Achieving this requires information about the number of SMEs owned by women, and the barriers and opportunities for their growth within the informal economy and transition to formal enterprise.

Tackling informality has been sporadic and piecemeal by Pacific DMCs, except for PNG, which is the only Pacific DMC that has an existing policy specifically focused on the informal economy (Box 5). There is no specific institution that oversees the informal economy in the region. The issues and needs of people operating informally are typically considered social issues and assigned to social welfare ministries or departments, such as social welfare, women and youth, and local government.

BOX 5: THE PAPUA NEW GUINEA APPROACH TO DEVELOPING THE INFORMAL ECONOMY

Papua New Guinea (PNG) has the largest economy (US\$23.7 billion)^a and largest population (about 9 million) among the Asian Development Bank’s (ADB) Pacific developing member countries (ADB 2021). There are relatively few formal employment opportunities in PNG outside of the public sector and resources, and income earned in the informal economy “supports the livelihoods of more than 80% of the population” (Kopel 2017).

PNG has recognized the significance of the informal sector for broader economic development and adopted the term “informal economy” to recognize the informal sector as “a fundamental part of the whole economic system, and equal partner in economic growth and development” (Kopel 2017). The Informal Sector Development and Control Act 2004 intends to encourage growth and employment in the informal economy and sets out regulations relevant to informal businesses, such as those related to food safety.

The National Policy for the Informal Economy 2011–2015 was adopted in 2011. This policy aims to “achieve the maximum participation of all citizens, rural and urban, male and female, in the economic opportunities offered by a dynamic and diversified informal economy”. Importantly, the policy recognizes the potential for the informal economy to support opportunities for Papua New Guineans to earn incomes, support their livelihoods, and enhance the wellbeing of their families and communities.

The policy recognizes the contribution of the informal economy as “the grassroots element in the private enterprise system”. It 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”. The policy aims for the “informal economy to grow in size, and in the diversity and quality of the goods and services produced by it”. The policy calls for action in two areas: financial inclusion of all households, and provision of appropriate public goods and services to increase informal economy productivity.

Not all the commitments of the policy have been implemented (ADB 2018). The PNG Constitutional and Law Reform Commission in 2018 called for a review of the Informal Sector Development and Control Act 2004 to, among other goals, align with the National Informal Economy Policy. PNG is working to establish a Voice Mechanism for the Informal Economy to act as a conduit between informal operators and the government, and as a means of coordinating associations and networks throughout PNG.

The Informal Sector Development and Control Act 2004 was used by the management of the National Capital District Commission to justify banning the sale of cooked foods in Port Moresby on the grounds of health and safety (Wenogo 2022). Such bans have profound negative consequences for families who rely on informal economic activities for their income, particularly if enforcement involves fines, heavy-handedness, or corruption.

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

^a PNG’s economy is dominated by the export of oil and gas; mining products (gold, copper, nickel, and cobalt); and agricultural products (coffee, cocoa, palm oil, and logs). The three sectors together accounted for more than 95% of export earnings in 2019; 85% was from gold and liquefied natural gas.

Sources: ADB. 2021. *Pacific Economic Monitor*. Manila; ADB. 2018. *Women and Business in the Pacific*. Manila; E. Kopel. 2017. *The Informal Economy in PNG: Scoping review of literature and areas of further research issues*, Paper 25. The National Research Institute; B.J. Wenogo. 2022. “Latest Port Moresby ban doomed to failure”. *DevPolicy Blog*. 25 October. <https://devpolicy.org/latest-port-moresby-ban-doomed-to-failure-20221025/>; PSDI analysis.

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 in Pacific DMCs. PNG’s MSME Policy 2016 notes “with over 85% of participation of micro and small business activities in the non-formal sector, it is imperative that the transition from non-formal to formal is a key action plan”. The Samoa MSME Development Policy and Strategy recognizes that owners of micro and small enterprises may not want (or have the capacity) to formalize and/or scale up but, nonetheless, they play a critical role in sustaining livelihoods. The policy notes that businesses that seek to formalize and scale up “will need support as they seek to formalize in order to access new business development opportunities and grow”, and includes provisions to support enterprise formalization.

B. BENEFITS OF FORMALIZATION FOR ECONOMIES

Formalization delivers economic benefits such as increased tax revenue, job creation, and productivity (Stein et al. 2013). Generally, informal businesses are considered less productive than formal businesses because of their tendency to employ workers with lower levels of education and their restricted access to capital, finance, business development services, and markets. A preponderance of informal businesses can theoretically impact competition if informal businesses are avoiding operating costs, such as company tax, that other firms face. There are also potential interactions between productivity and informality (e.g., if there are incentives for informal firms to remain small, they may underinvest in research and development).

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

Formalization and registration provide governments with better knowledge about what businesses operate in the economy, and facilitate better planning and policy-making. Formality also provides the legal and regulatory structures that facilitate growth, and build investor confidence.

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. The prevalence of informality in the Pacific means that governments collect less taxation revenue and face challenges in regulating and governing some economic activities. PNG’s MSME policy notes that the transition to formality will increase the government’s revenue earning capacity as more businesses pay the appropriate business taxes.

Some argue that Pacific DMCs miss out on the welfare creation, stability, and poverty reduction benefits associated with a higher proportion of formal enterprises in the economy. While this is an important point, it should also be noted that the informal economy—and women’s unpaid care work—make significant contributions to employment and income generation, and perform the functions of welfare and poverty reduction where government does not.

C. BENEFITS OF FORMALIZATION FOR WORKERS

Workers who are employed formally can benefit from improved workplace conditions and protections compared to those in the informal economy. Access to social protection is cited as a key benefit for workers employed in formal enterprises. However, there are “very few formal systems of social protection in the Pacific—whether contributory or non-contributory, universal or targeted, conditional or unconditional” (Jolly et al. 2015). Instead, Pacific communities have relied on informal social protection provided through family or community groups such as churches or other nongovernment organizations (Mohanty 2011). The formal social protection mechanisms that exist in the Pacific are largely restricted to people who are employed formally. For example, in Vanuatu, legislation governing employment provides considerable protections relating to wages, work hours, and leave for formal sector employees, while the Decent Work Country Program provides benefits for women in the formal sector, including 12 weeks of maternity leave at half pay and breastfeeding allowances (Jolly et al. 2015).

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

Social insurance schemes and retirement funds help people respond to common risks such as illness, old age, and unemployment. In many countries, mandated employer contributions to retirement funds are also restricted to those in the formal sector (PSDI 2022).

Significant numbers of women are employed by businesses which are not required by legislation to make contributions on their behalf. Certain groups are also excluded. In Tonga, the legislation permits voluntary contributions by informal workers except domestic workers which directly impacts women. This can have serious negative social effects, including an impact on women's ability to leave abusive relationships (Prasad and Kausiame 2012).

Workers in the informal economy face challenges in mobilizing, organizing, and expressing their views (Carré 2018). This is particularly true for women workers who “face the additional hurdles or invisibility or seeing their concerns discounted, or being outright dismissed as workers” (Carré 2018). Stronger protections relating to collective action are an additional benefit for formal workers.

While few Pacific DMCs have comprehensive workplace sexual harassment legislation, and policies and codes of conduct “are often considered inadequate by potential users” (ILO 2015), the protections that apply focus on formal workplaces, such as government departments. Women in the informal economy are not afforded the same protection, despite the vulnerability of domestic and market workers to sexual harassment, violence, and exploitation.

D. BENEFITS OF FORMALIZATION FOR INDIVIDUAL BUSINESSES

In theory, formalization should also benefit individual businesses. Through registration, businesses may have better access to human capital and technology, greater ability to avoid paying fines or bribes, a means of accessing the judicial system, and better access to credit (Stein et al. 2013). Formalization can also provide businesses with access to grant programs, business development support, associations, and networks (Chen 2007). Advantages include:

1. 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.

It also opens opportunities to access a broader range of suppliers and markets, including bidding for public sector contracts, which typically require bids from organizations with formal legal status. Creating a distinction between the business owner and the business in most cases limits personal liability, providing additional financial protection for undertaking a business venture.

2. FACILITATES ACCESS TO FINANCE

Throughout the Pacific, women face additional challenges in accessing capital. Registration enables businesses to more effectively access capital. In contrast, many informal businesses rely on loans from family members or informal money lenders, rendering them vulnerable to economic shocks and disruption (Ohnsorge and Shu 2022). In a study of 80 women in the informal sector in Fiji, Narayan (2011) found that only one woman had attempted to obtain a loan from a bank, with the remainder relying on personal savings or borrowing from family and friends for start-up capital.

Most financial institutions will lend in larger amounts and on more favorable terms to legal entities. The World Bank Enterprise Survey (WBES) of the informal sector, which draws on data from 15 developing economies, found that access to finance is a leading challenge for informal businesses, which becomes acute as they grow (Stein et al. 2013). Compared to informal businesses, registered businesses are 54% more likely to have a savings or transactions account with a bank, and 32% more likely to have a bank loan (Farazi 2014).

3. FACILITATES GREATER ACCESS TO GOVERNMENT SUPPORTS

Government stimulus packages in times of crisis prioritize the formal economy. This was highlighted by Pacific governments' fiscal responses to COVID-19. In Fiji, Solomon Islands, and Vanuatu, support for small business owners was limited to registered businesses. For example, in Vanuatu, employees could receive up to Vt30,000 (US\$275) of their wage per month for 4 months, with the government paying 15% of employers' wage bills. Additionally, SMEs received a lump sum equivalent to the value of an annual business license. Workers in the informal economy received no such benefit (Hamilton and Hughes 2020).

The proportion of people who received government support amid COVID-19 varied considerably between countries. For example, in Kiribati, 40% of women and men received social protection grants, while in Solomon Islands and PNG, "almost nobody received such benefits" (ADB and UN Women 2022).

Women's employment and income was disproportionately impacted by COVID-19, compounded by an escalation in gender-based violence and increase in unpaid childcare and domestic work responsibilities (UN Women 2022). Women MSMEs were also more likely to cut hours or close amid COVID-19, while women in some

countries were more likely to be pushed into informal employment (ADB and UN Women 2022). The failure to support the informal sector thus significantly impacted on women (PIFS 2021). Market vendors, the majority of whom are women, were also impacted by loss of income associated with COVID-19 restrictions (PIFS 2021), with most unable to access employment benefits or financial assistance. Because so many women are operating informally, and because women tend to be disproportionately impacted by crisis, access to government support through formalization may particularly benefit women.

E. COSTS OF FORMALIZATION

There are costs to becoming and remaining formal (Sepulveda and Syrett 2007). Business owners are required to invest time and money to register their businesses, sometimes with multiple government agencies, and to comply with ongoing registration requirements. Registration may require completion of complex business forms, which are often in English rather than local languages.

Once businesses are registered, they may be required to pay annual fees to maintain their status, or complete paperwork such as filing annual returns. Formal registration means some businesses are responsible for payment of employee benefits, such as contributions to pension funds. Following formal registration, businesses may also face costs associated with regulation or reporting compliance.

Formalizing a business may also require a woman to make personal details public. This reduction of privacy can pose a risk of harm for women, particularly when social norms favor male ownership of assets. A woman may be placed at risk of violence or undue pressure when others learn about her personal details, such as address, phone number, or business interests.

Formalization makes businesses more visible to national taxation authorities. There may be opportunities for governments to consider taxation reform or other measures to incentivize registration and formalization. In countries that impose income tax, unincorporated small businesses can benefit from the tax-free thresholds that are typically built into personal income tax systems. Tonga, Samoa, and PNG have introduced simplified small business tax regimes to reduce compliance costs for simple small businesses. However, in Vanuatu (which lacks an income tax system), business licensing fees have a regressive effect, adversely affecting women, who are concentrated in SMEs (ADB 2018). Complex procedures for paying taxes can also impose a particular burden on women.

Formalization does not necessarily resolve the challenges that women operating businesses face. For example, women business operators in both the formal and informal economies are subject to discriminatory laws and practices, such as restrictions in formal employment in certain sectors, or working at night (ADB 2018). Women in some Pacific countries, for example, were previously required to co-sign with a male relative when registering a company.

F. BARRIERS TO FORMALIZATION

To pursue the goal of business formalization, governments must first understand the reasons why businesses operate informally and consider the barriers and incentives for businesses to formalize. As noted in a 2022 ILO report, “whether a business or household enterprise can transition to formality may depend on the assets and capital available to grow and be sustainable”. Women in the Pacific do not have the same degree of control over assets as men, and face barriers in accessing capital (ADB 2018). The

ILO (2022A) notes that “women face structural and social barriers in access to credit, technology, business services, training, and the market compared to men. Such factors impact their capacity to start formal businesses or grow their enterprise to a point where formalization is feasible”.

Complicated business registration processes deter both women and men in the informal economy to incorporate a formal entity.⁷ Complex processes can be particularly challenging for women, given their generally lower levels of literacy and business knowledge and limited access to business support networks. Registration processes that are affordable, predictable, and streamlined can simplify business formalization. For example, in Solomon Islands, PSDI-supported reforms reduced the time taken to incorporate a business from 45 days to 1.5 days. Reform of registration processes and automated registries (which are faster and less susceptible to fraud, error, or discrimination) promote an enabling environment for formal business creation, and enable anyone with a mobile phone to register. For example, the PNG Investment Promotion Authority (with PSDI support) is developing a new online business registry, which aims to increase the availability and accuracy of business data and make it easier for businesses to operate and enter into contracts.

In contrast, paper-based registration processes may require business owners who wish to formalize their businesses to travel, often over dangerous routes that require multi-day trips. This can be a particular deterrent for women (ADB 2019) due to caring responsibilities and gendered travel risks. Paper-based registries also involve numerous face-to-face interactions between clients and staff, which can potentially increase opportunities for discrimination and corruption.

⁷ For example, the process in Fiji requires expert advice, which leads to reluctance to register. ADB. 2018. *Women in Business in the Pacific*. Manila.

However, women in the Pacific have less access than men to the devices, data, and skills required to use online platforms (A4AI 2022). Pacific women may also face challenges in accessing instructions or understanding forms because of lower levels of literacy and business knowledge relative to men, particularly given many forms and instructions are written in complex business English, rather than local languages. The ILO (2022) notes that “as governments shift services to electronic means ... people who lack access to information and communication technology (ICT), or the capacity to use it, might be left behind in efforts to transition from informal to the formal economy”.

Data from a recent study examining digital gender gaps in PNG, Samoa, and Tonga found evidence of gender gaps across several areas. PNG exhibited the greatest digital gender gap, with an overall score of 47%. Samoa and Tonga performed better, with overall scores of 71% and 71.6% respectively (A4AI 2022). The study found that PNG has the most expensive internet services in the Pacific, and that PNG women are 10% less likely than men to own a mobile phone and 23% less likely to use mobile internet. The study noted higher levels of digital literacy and mobile phone ownership in Samoa and Tonga, but found that governments had failed to routinely collect sex-disaggregated ICT data, or establish ICT policies with time-bound targets to overcome gender and poverty divides (A4AI 2022). These findings have implications for the uptake of digital services by women, including online business registration.

Data from 15 informal sector surveys undertaken by WBES indicates confusing registration processes, a lack of information on how to register, delays, taxation, and a lack of perceived benefits are key reasons why firms do not formalize (Stein et al. 2013).

Data from the Tonga Informal Business Survey is also illustrative of the barriers that operators of informal businesses in the Pacific encounter. Survey respondents were asked why they have not registered their business, and responded as follows (MTED 2022):

- (i) 60% were not aware they should register.
- (ii) 20% did not understand the process for registration.
- (iii) 15% did not see the benefits of registering.
- (iv) 10% declared that registration was too costly.

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

For some operators of informal businesses in the Pacific, formalization may become more attractive due to changes in the system or operating environment, shifting them into the category of “wannabe firms”. Data from the WBES survey indicates that the firms most willing to consider registration also had better access to education, finance, and markets; higher annual sales; and separate bank accounts for their businesses (Stein et al. 2013). Pacific governments should also recognize that there are businesses that are unlikely to formalize (“necessity firms”), but still contribute by providing livelihoods for individuals, families, and communities.

TABLE 1: INTERNATIONAL FINANCE CORPORATION INFORMAL MICRO, SMALL, MEDIUM-SIZED ENTERPRISES FRAMEWORK: WILLINGNESS AND CAPACITY TO FORMALIZE

		Willingness to formalize	
		Yes	No
Capacity to formalize	Yes	<p>Opportunity firms</p> <p>Have the greatest potential for growth and job creation, as well as for formalization in the future.</p>	<p>Defensive evaders</p> <p>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</p> <p>Willing to formalize but lack the capacity to do so.</p>	<p>Necessity firms</p> <p>Operating because the entrepreneur has to find means to survive.</p>

Source: IFC Closing the Credit Gap for Formal and Informal MSMEs

G. FORMALIZATION AND WOMEN'S BUSINESS ACTIVITIES

There is no one type of woman entrepreneur in the Pacific. Instead, women are a heterogenous group with diverse preferences and experiences that reflect the intersection between gender, age, ethnicity, location, disability, marital status, and other factors. Women's desire and ability to be entrepreneurial may vary over time, and not all women operating informal businesses will necessarily wish to formalize.

Entrepreneurs need information about the most appropriate business structures for them to use given their operations and goals, the range of ways they can register their businesses, and the consequences of selecting a particular structure.

A simple registration of a business name may be beneficial to an informal sector business, as it comes with few reporting requirements and costs relatively little while providing business certification. This may assist in demonstrating the value of the business to a potential lender. On the other hand, some entrepreneurs may mistakenly think that registering a business name establishes a separate legal entity, with associated protections for personal assets. A sole trader model is a simple structure that can enable women with small-scale businesses to transition from the informal sector to the formal sector; however, it does not protect the owner from responsibility for the entity's liabilities. This means that personal assets, such as the family home, could be at risk in the case of business failure.

For micro enterprises, a company structure with formal directors and associated requirements for annual returns and reporting may prove inappropriate. However, limited liability structures such as companies incentivize investment because shareholders are not liable for business debts.

Common company structures are based on a post-industrial revolution model of business as a profit-driven economic unit, controlled and run by its investor. In many parts of the Pacific, especially in rural and remote areas, this conceptualization of business does not fit with customary practices, land ownership, and women's social and community responsibilities (ADB 2018). Instead, some women may prefer to operate as a collective. For example, the work of the Fiji Women's Fund and the Pacific Women Shaping Pacific Development program has highlighted the importance of women's collectives in Fiji (Fleming and Goundan 2019) from a pragmatic and cultural perspective. Culturally, traditional Fijian society is communal; from childhood, Fijians understand the importance of working collaboratively and upholding shared community values. Collective structures provide individual women members with increased access to credit, market information, training, improved technologies, and means of savings, as well as increased bargaining power to purchase inputs and sell products. Working as a group, women are also able to practice leadership and decision-making, helping them acquire the skills and confidence to negotiate with male elders and village leaders and launch their own businesses.

Cooperatives can be egalitarian structures that fit comfortably with Pacific women's values, and with principles that encourage democracy, education, and concern for community. Many Pacific women, including in rural and remote areas, are familiar with the cooperative structure as a longstanding entity. Cooperatives have minimal registration and reporting formalities, and those who form part of a cooperative are seen as participants in a community-based profit-making venture.

This is often viewed favorably by their families and communities, while also enabling women to make an individual profit. However, some cooperatives in the Pacific have struggled to implement good governance practices, which can jeopardize women's economic opportunities. In some cases, cooperatives are administered separately to business registries, with minimal information available on their structure or operations. In many countries, administering agencies have limited capacity to enforce legal obligations, while outdated cooperatives laws may result in limited reporting and reduced transparency.

The community company structure may also increase women's opportunities to participate in business activities. The Solomon Islands Companies Act 2009 introduced community companies, which enable women to "mobilize collectively owned and managed community assets" for community business activities (ADB 2019). This is an example of a structure that could provide better opportunities and flexibility for women than trusts structures, which tend to be controlled by men (ADB 2019). The community company structure is more complex, which may not suit women with lower levels of education and business experience. In all business structures, traditionally-held gender roles can lead to women's exclusion from leadership or decision-making positions (including decisions over community land).

The Appendix provides a summary of the business models that are available across Pacific DMCs, and analyzes how the various models support the business activities of women. In some cases, as Section IV demonstrates, the informal economy may offer a better framework for women.

4 WOMEN'S WORK AND THE INFORMAL ECONOMY

The experiences of women in the informal economy are different from the experiences of men, and this means women consider the costs and benefits of registration in a specific way. The next section focuses on women's work in the informal economy. It will show that, for many women, operating informally is their preference.

A. PACIFIC WOMEN IN THE INFORMAL ECONOMY

Jolly et al. (2015) argue that, from the perspective of Pacific women, the *kastom ekonomi* and the commodity economy, or the formal and informal economies, are experienced “as a whole”, with most women balancing participation in each. In PNG, Jolly et al. (2015) note that women’s “economic strategies are complex and often pursued within the context of their overall household and familial strategies”.

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. As Rouse et al. (2013) observe, “women’s entrepreneurial preferences do not necessarily reflect free choices: they are often manifestations of unjust social outcomes” (quoted in Karki et al. 2021). 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. Gendered social norms that impose unpaid care and household work responsibilities on women also serve to create an environment in which women’s informal economic activity is more accepted. As noted in ILO (2022), “gender norms and economic structures impact the opportunity and choice of employment for women and men, and their options to transition from informal to formal work”.

B. 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 et al. 2015). The low barriers to entry for establishing businesses in the informal economy enable women to undertake income-generating activities for specific purposes, such as payment of school fees or to meet family, church, or community obligations. Informal activities were, for many women in a study focused on Solomon Islands, “the only way they can fulfill their economic and social obligations” and thus increase their status (Fakaia 2000). Women operating in the informal sector in Samoa, meanwhile, reported that their income was “fast money” that enabled them to meet their church community obligations (Taua’a 2010).

C. MEETING HOUSEHOLD NEEDS

For many Pacific women, their financial security is more important than making a profit (Pacific Women 2021). In research that examined the informal economy and women’s work in Solomon Islands, Fakaia (2000) notes that informal activities are particularly critical for the livelihoods of women and families in urban areas, as they cannot engage in subsistence agriculture to the same extent as those in rural areas. Among respondents to Fakaia’s survey, 84% reported

that their main reason for engaging in informal employment was to “earn cash required by the family to survive in Honiara” (Fakaia 2000). Among the 80 women interviewed by Narayan (2011) in Suva-Lami, Fiji, almost half of the women (47%) reported being the only income earner for their family.

Women who were interviewed in Samoa reported that the informal economy provides an easier and more flexible way to meet household needs, such as education costs, than employment in Apia (Taua’a 2010). As one respondent told Taua’a (2010), “my husband is a builder, sometimes he works for 3 months and most of the time he is out of work, but we have children to school and care for, so I find that in 3 weeks I can earn ST1,200 from selling my ‘ie sae (fine mat)”.

Informal businesses can be established and scaled up quickly. This provides women with the flexibility to meet their immediate needs, including for community contributions, and build a potential safety net in times of disruption, such as disasters or economic shocks. While informal output is impacted by cycles in the formal economy, informal employment does not move with the formal economy (Ohnsorge and Shu 2022). This means the “informal sector can provide a short-term buffer to formal economy labor market disruptions” (Ohnsorge and Shu 2022). This is particularly important, given not all businesses are eligible for government support.

D. BETTER OPPORTUNITIES FOR INCOME GENERATION

Not all people participating in the informal economy in the Pacific are doing so because they are excluded from the formal economy. Instead, for some men and women, the informal economy offers better income-earning opportunities.

The National Audit of the Informal Economy in 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” (DfCDR 2019). The audit found that informal workers work longer hours but earn about three times minimum wage. Net profits in the informal economy appear to be about K300–K500 per week, which is more than double the minimum wage in the formal sector (DfCDR 2019). For example, a 2023 case study of the earnings of a betel nut vendor in Port Moresby revealed weekly earnings of about K600 (Samof 2023). In PNG, the average monthly pay for women in the formal sector is less than half that of men (ADB 2016) and minimum wages have fallen, so it is likely that opportunities for income generation in the informal economy are particularly important for women.

In research with women operating informal businesses in Solomon Islands, Fakaia (2000) found that 22% of surveyed women had previously been in formal employment, but left due to reasons such as poor pay. Women operating informal businesses in Solomon Islands reported earning more than SI\$600 in a good week, far more than the contemporaneous minimum wage rate of less than SI\$2.00 per hour (Fakaia 2000).

However, not all women benefit equally. A survey of 80 women in Suva-Lami, Fiji, revealed weekly earnings ranging from more than F\$900 to about F\$34, with widows, single mothers, and separated women with children earning the least (Narayan 2011). The study also indicated that women in the informal sector worked for more hours per day than those in the formal sector—10.48 hours compared with 8 hours—in addition to household chores and care work (Narayan 2011).

Anderson’s (2008) survey of 550 women roadside vendors in Madang Province, PNG, found that they earned a weighted average income three times the national minimum wage, and more than four times the income of women participating in Mama Lus Frut schemes. Anderson (2008) reported that “access to good-quality customary land and proximity to main roads” were key to the success of these vendors (Anderson 2008). Not all women have these advantages.

E. EMPOWERMENT AND ENTREPRENEURSHIP

The relative ease of establishing a business in the informal economy means that operators can test out new ideas, while the absence of burdensome regulations enables firms to grow while avoiding costs. In this way, informal economies can act as a “nursery for future economic growth” (Farazi 2014). For some women, the informal economy is a way for them to establish their businesses and then make a transition to formality (Conroy 2010). This is likely to apply to a subset of informal women business owners. For example, in a survey of women operating informal businesses in Solomon Islands, 84% did not wish to expand their business operations (Fakaia 2000). However, some women—such as those undertaking capital-intensive activities like raising broiler chickens or retailing fish—expressed their wish to formalize (Fakaia 2000).

The informal sector also provides opportunities for women’s empowerment. Taua’a (2010) argues that by providing accessible opportunities, “the informal sector (in Samoa) empowers the poor, women in particular, to expand their economic participation and to meet their basic needs”. Some women interviewed in Solomon Islands also reported that their informal business earnings “gave them power and independence from their husbands’ incomes” (Fakaia 2000). In a case study of informal sector women in Suva-Lami, Fiji, Narayan (2011) argues that “for a majority of women, taking control of their lives came through the opening of the informal sector, which to some extent bridged the opportunity gap”. Some respondents to Narayan’s survey reported that they wanted to engage in informal sector activity because “it was a chance for them to be their own boss, with little discrimination” (2011).

Reflecting on women’s entrepreneurialism in PNG, Sharp et al. (2015) describe the “push” and “pull” factors that shape the decisions of some professional women. Women’s experiences of being “marginalized, harassed, and overlooked” in salaried roles, as well as their realization that “informal businesses or even larger scale formalized businesses offer as much or more money and a greater degree of control over their working lives”, motivate some to engage in small business activities instead of (or alongside) wage employment (Sharp et al. 2015).

For many women, the informal economy is an important part of how they balance their unpaid and paid work, and a means for them to contribute to the needs of their families and communities.

The informal economy provides greater opportunities for empowerment than formal employment, and more flexibility to pursue business in ways that meet women’s preferences. For these women, the barriers and costs of formalization can be considerable.

However, as outlined in Section III, 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. Supporting the growth of businesses owned by women would also be beneficial for government because it can provide a means to increase productivity, support competition, and increase tax revenue.

5 RECOMMENDATIONS

This section presents recommendations informed by research and by PSDI consultations and discussions with governments, women's groups, women in business, and private sector organizations.

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.

APPENDIX: BUSINESS ENTITIES AND WOMEN'S WORK IN THE PACIFIC

Women choose to be entrepreneurs for a range of reasons, and these reasons inform the kind of entities that women select to achieve their goals. Below are three hypothetical scenarios that show how different business models could be used by women with different entrepreneurial aims.

SCENARIO 1

A woman has a business idea and wishes to pursue it on her own to make a profit.



- Establish business in the informal sector.
- Register a business name as a sole trader and trial the idea on a small scale.
- Join a business association to receive training and information and build networks.
- Formalize the business into a company structure, such as a limited liability company (LLC) or shareholder company, which allows her to access a greater variety of tax concessions and government support packages, limits her personal liability, and opens scope for future growth (but imposes greater administrative costs). She may wish to be a sole director/owner of the company.

SCENARIO 2



A group of women would like to work together to share the load. They have family, church, and community commitments and their work is seasonal, so they want to work in a collaborative way while also making money for themselves and their families.

- Operate as an informal group or collective, relying on trust, without compliance or reporting requirements.
- Join an association to learn new skills, and benefit from the collective bargaining of contracts.
- Form or join a cooperative so that they can rely on each other to meet customer demands. In some cases, cooperatives also offer limited liability protections.
- In the future, legal reforms could establish new business entities which enable women to formalize their business as a limited liability partnership. This would enable them to access tax concessions and government support packages, while limiting their personal liability.

SCENARIO 3

Women in a community do not have access to their own land, so they want to use community-held land for profit-making activities. For them, a successful business is one that not only makes profit, but also cares for and sustains the community's resources. They are happy for the profits to benefit the community as well as themselves and their families.



- Join a relevant industry association to access training opportunities and information, and to capitalize on the marketing and contracting opportunities organized for members.
- Form a cooperative that is recognized as a communal way of making a profit from community-held land.
- Formalize the business into a company structure, such as a community company (all profits go back to the community), social enterprise company (some profits go to the community), or an LLC (profits go to the women but they can choose to share them with the community, or community members could also be shareholders). These structures enable women to access tax concessions and government stimulus packages, while limiting their personal liability.

TABLE A1: ENABLING LEGISLATION FOR BUSINESS MODELS IN PACIFIC ISLAND COUNTRIES

The table below shows which business models are enabled by legislation in the 14 Pacific developing member countries of the Asian Development Bank. In the table, “BN” indicates that there is legislation in place for sole traders or general partnerships to register their business name.

	Sole trader	Association	Cooperative	Community Company	Social Enterprise Company	General Partnership	Limited Liability Partnership	Limited Liability Company	Shareholder Company	Trust
Cook Islands	x	✓	x	x	x	x	x	x	✓	✓
Fiji	BN	x	✓	x	x	✓	x	x	✓	✓
FSM	x	✓	✓	x	x	✓	x	x	✓	x
Kiribati	BN	✓	✓	x	x	BN	x	x	✓	x
Marshall Islands	x	✓	✓	x	x	✓	x	✓	✓	✓
Nauru	BN	✓	x	x	x	✓	x	x	✓	✓
Niue	x	✓	✓	x	x	✓	x	x	✓	✓
Palau	x	✓	✓	x	x	✓	x	x	✓	x
PNG	BN	✓	✓	x	x	✓	x	x	✓	✓
Samoa	x	✓	✓	x	x	✓	x	x	✓	✓
Solomon Islands	BN	x	✓	✓	x	✓	x	x	✓	✓
Tonga	x	✓	✓	x	x	x	x	x	✓	✓
Tuvalu	x	✓	✓	x	x	✓	x	x	✓	x
Vanuatu	BN	✓	✓	✓	x	✓	x	x	✓	✓

BN = business name, FSM = Federated States of Micronesia, PNG = Papua New Guinea.

Source: PSDI analysis

TABLE A2: STRENGTHS, WEAKNESSES, OPPORTUNITIES, AND RISKS OF ALTERNATIVE BUSINESS MODELS FOR WOMEN

The table compares the strengths, weaknesses, opportunities, and risks for women of a range of business models.

COOPERATIVE	
Strengths	<ul style="list-style-type: none"> • Cooperatives are egalitarian structures that fit comfortably with Pacific women's values, with principles that encourage democracy, education, and concern for community. This better responds to women's needs, expectations, and desires about undertaking a business venture. • Pacific islanders, including in rural and remote areas, are familiar with the cooperative structure, as it has been a common form of entity in many Pacific island countries for generations. • Cooperatives have minimal registration and reporting formalities. • Women who are part of cooperatives are seen to form part of a community-based profit-making venture. This is often viewed favorably by their families and communities, while also enabling women to make an individual profit. • Women feel safer and more confident when they do business through a collective model.^a
Weaknesses	<ul style="list-style-type: none"> • Historically, Pacific cooperatives have faced challenges in being managed ethically and effectively. In some countries, this has lowered trust in the model by both potential members and potential clients. • Women's entrepreneurship can only grow within the rules of the cooperative, which may not allow for new or expanded business. • Historically, cooperatives have not been included in government stimulus packages in times of crisis. • Workplace conditions, such as leave entitlements, occupational health and safety legislation, and pensions may apply to employees of the cooperative, but do not extend to members of the cooperative.
Opportunities	<ul style="list-style-type: none"> • In cases where a woman's production is not consistent, or a woman can only work part-time due to other responsibilities, the cooperative is better able to meet customer orders by drawing on a group of producers, rather than an individual. • As registered entities, cooperatives can access grants and development opportunities (such as training) that support women's entrepreneurship. • Cooperatives can be formed as member-financed savings or insurance schemes for women working in the informal sector.
Risks	<ul style="list-style-type: none"> • Traditionally-held gender roles can lead to women being excluded from the cooperative or leadership positions within the cooperative. • There have been examples in Papua New Guinea of cooperatives being used as vehicles to distribute government grants to groups in return for political favor.^b

COMMUNITY COMPANY	
Strengths	<ul style="list-style-type: none"> Community assets which are used for the benefit of a community company, such as land, are protected in an “asset lock” and cannot be sold by individuals. This can protect women who are operating businesses on land over which they have limited control. The profits of the community company go to the community, rather than to individuals. This fits well with concepts of business success for Pacific women, which favor family and community interests over individual advancement. Women who are involved in community companies are seen to form part of a community-based profit-making venture. This is often viewed favorably by their family and community members.
Weaknesses	<ul style="list-style-type: none"> The community company model mimics many characteristics of shareholder companies, which can be a complex structure for women to understand and comply with (share registries, reporting, minutes, etc.). Women do not make an individual profit from their entrepreneurship through a community company because profits go to the community as a whole. This can limit their ability to expand and profit from their entrepreneurial ideas and skills. The early experience in Solomon Islands has been that, as a new, unfamiliar corporate model, banks and insurers have been hesitant to provide services and finance to community companies.
Opportunities	<ul style="list-style-type: none"> Women have opportunities for leadership roles and skills development that can translate to other business ventures. With their company structure, community companies could potentially be eligible for government stimulus packages and other government financial support. Because of the model’s community focus and benefits, communities may be willing to grant women access to community-held land to operate a social enterprise company.
Risks	<ul style="list-style-type: none"> Traditionally-held gender roles can lead to women being excluded from the community company or its leadership or decision-making positions (including decisions over community land). Without support and guidance, the community company structure may be chosen inappropriately for a venture that was not anticipated by the legislation.

SOCIAL ENTERPRISE COMPANY	
Strengths	<ul style="list-style-type: none"> The assets of a social enterprise company, such as land, are protected in an “asset lock” and cannot be sold by individuals. This can protect women who are operating businesses on land over which they have limited control. The payment of profits of a social enterprise company to shareholders is capped. This means shareholders can make a profit (compared with community companies, where profits to shareholders are banned), while profit also returns to the enterprise (compared with a shareholder company, which does not contribute to the community). This fits well with concepts of business success for Pacific women, which favor family and community interests over individual advancement. Women participating in social enterprise companies are seen to form part of a community-based profit-making venture. This is often viewed favorably by their family and community members.
Weaknesses	<ul style="list-style-type: none"> The social enterprise company model mimics many characteristics of shareholder companies, which can be a complex structure for women to understand and comply with (share registries, reporting, minutes, etc.). Women’s entrepreneurship can only grow in relation to supporting the social enterprise, which may not allow for new or expanded business. Social enterprise companies can struggle to raise funds from investors, who prefer other company models. As a newer model for the Pacific, social enterprise companies may not be recognized by customers or clients.
Opportunities	<ul style="list-style-type: none"> Women have opportunities for leadership roles and skills development that can translate to other business ventures. The character of social enterprise companies makes them attractive for raising capital from investors seeking to return a profit on a socially responsible business. With their social enterprise structure, community companies could potentially be eligible for government stimulus packages and other government financial support. Because of the model’s community focus and benefits, communities may be willing to grant women access to community-held land to operate a social enterprise company.
Risks	<ul style="list-style-type: none"> Traditionally-held gender roles can lead to women being excluded from social enterprise companies or its leadership or decision-making positions (including decisions over community land). The United Kingdom social enterprise model company was designed for a large, sophisticated market. It may not operate successfully in Pacific island countries that do not have the same regulatory infrastructure. Introduction of a social enterprise company structure may not be needed, or may cause confusion, if other business structures already operate in a way that sufficiently promotes social enterprise goals.

LIMITED LIABILITY PARTNERSHIP	
Strengths	<ul style="list-style-type: none"> Limited liability partnerships provide protection by limiting a woman’s liability to her contribution to the partnership. Her personal assets are not at risk. Limited liability partnerships allow women to pursue a business venture collaboratively with others. Pacific women often prefer to do business in this manner, which provides additional flexibility and support by pooling assets, skills, and knowledge. Because they are working in partnership with others, women partners in limited liability partnerships can balance commitments to the business with their commitments to family and community. Women feel safer and more confident when they do business through a collective model.
Weaknesses	<ul style="list-style-type: none"> Partnerships are designed for professional service businesses (doctors, lawyers, accountants, real estate agents, etc.) and may not be suited to other types of business ventures. Outside the Pacific, limited liability partnerships have faced difficulty in raising funds through finance institutions. Outside the Pacific, limited liability partnerships have faced challenges being recognized as a credible business structure, as they are not recognized by customers or clients. This may be accentuated as a new model in the Pacific.
Opportunities	<ul style="list-style-type: none"> Managing limited liability partnerships can encourage women to learn and take up standard methods of accounting and reporting (which are also used in other business structures), but with less complex compliance measures. With their partnership structure, limited liability partnerships could potentially be eligible for government stimulus packages. In some countries, there are potential tax benefits for partnership models. Flexibility in contributions presents an opportunity for more experienced businesswomen to partner with women with less capital to contribute to the business.
Risks	<ul style="list-style-type: none"> Traditionally-held gender roles can lead to women being excluded from management or decision-making positions within the limited liability partnership (including in family businesses). All partners are bound by a contract made by any one partner. If not made in the partnership’s best interests, this can negatively impact the business and potentially its underlying family or community relationships. Partners may need to compromise on individual ambition within a partnership model.

LIMITED LIABILITY COMPANY (LLC)	
Strengths	<ul style="list-style-type: none"> • LLCs provide protection by limiting a woman's liability to her contribution to the company. Her personal assets are not at risk. • LLCs have simpler procedures for establishment and fewer formalities than shareholder companies, making them a more accessible model for women.
Weaknesses	<ul style="list-style-type: none"> • LLCs are not suitable for all business ventures. In many jurisdictions, there are prohibitions on using LLCs for particular types of businesses, such as those in the finance and insurance industries. • LLCs can face difficulty in raising funds from investors, who prefer other company models. • As a newer model for the Pacific, LLCs may not be recognized by customers or clients. • Women who run companies can be perceived as putting their own interests before those of their family and community, which can be viewed negatively.
Opportunities	<ul style="list-style-type: none"> • LLCs are a model well suited to small and medium-sized ventures, which represent a large proportion of women's entrepreneurship in the Pacific. • LLCs can be designed to incorporate a single member (akin to a shareholder) and manager. This would give a woman full control of assets and business decisions. • With their company structure, LLCs could potentially be eligible for government stimulus packages.
Risks	<ul style="list-style-type: none"> • Traditionally-held gender roles can lead to women being excluded from management positions within an LLC (including in family businesses). • Women may not have access to the assets (such as land, which is held communally) needed to pursue the business of the LLC. • LLCs are a vehicle to generate profit for its members (akin to shareholders). This could create a risk of harm for women if they are expected to put family and community before themselves. • In many United States jurisdictions, taxation regimes for LLCs are less favorable than for other company models.

ASSOCIATION	
Strengths	<ul style="list-style-type: none"> • Women members of associations can benefit from the training and business opportunities (such as market spaces) organized for members. • Women who do not have access to other business connections can benefit from the networking and introductions that associations provide. • Many women are familiar with the association governance model (president, secretary, treasurer), and use it in informal associations in other aspects of community life. • Women feel safer and more confident when they do business through a collective model.
Weaknesses	<ul style="list-style-type: none"> • Membership of an association does not equate to a woman having her own business entity. While she may benefit from activities and opportunities organized by the association, profits earned by the association are reinvested in the association, not distributed to members. • The structure is not typically designed for use in profit-making ventures, and has minimal governance and reporting standards. • Government stimulus packages and beneficial company taxation regimes targeted at businesses will not apply to members of associations. • Workplace conditions, such as leave entitlements, occupational health and safety legislation, and pensions may apply to employees of the association, but do not extend to members of the association.
Opportunities	<ul style="list-style-type: none"> • Associations can help women with business ideas and skills to meet and network, develop ideas together, and go into business together. • As registered entities, associations can access grants and development opportunities (such as training) that can support women’s entrepreneurship. • As registered entities, associations can negotiate and enter into contracts on behalf of their members to provide products or services. • Associations can be used as member-financed savings or insurance schemes for women working in the informal sector.
Risks	<ul style="list-style-type: none"> • Traditionally-held gender roles can lead to women being excluded from associations or leadership positions within the association. • Historically, when there has been a lack of knowledge about the duties of committees and the rights of association members, there have been governance and accountability challenges.

a Menka Goudan from the Fiji Women’s Fund identified this strength of collective models for women living in rural and remote areas during a consultation on 5 July 2021. This strength applies to cooperatives, limited liability partnerships, and associations.

b Asian Development Bank (2018), footnote 2, p. 145.

Source: PSDI analysis.

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INVISIBLE HANDS: ENABLING PACIFIC WOMEN IN THE INFORMAL ECONOMY

Invisible Hands: Enabling Pacific Women in the Informal Economy is the first in a series of Pacific Private Sector Development Initiative (PSDI) reports focused on the role of women in the informal economy in the Pacific. The report argues that the informal sector should be considered a vital and enduring part of the Pacific private sector, and that building an enabling environment for the informal economy is central to creating greater opportunities for women to participate in, and benefit from, private sector development.




ABOUT PSDI

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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