

COUNTRY REPORT FOR MALAYSIA

REGIONAL COURSE ON STATISTICS ON INFORMALITY: INFORMAL ECONOMY, WORK AND EMPLOYMENT

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1. BACKGROUND

The Ministry of Human Resource Malaysia (MOHR) is the agency in charge of the implementations, updating and monitoring of labour policies and laws in order to ensure efficiency, productivity and discipline workforce as well as to ascertain healthy and safe working environment. This ministry is also responsible for the planning and development of human resources through various initiatives and programmes.

Malaysia adopts a centralized statistical system through the establishment of Department of Statistics Malaysia (DOSM) i.e. an independent agency under the Prime Minister's Department lead by the Chief Statistician and entrusted with the responsibility to collect, interpret and disseminate the latest and real time statistics in the monitoring of national economic performance and social development. Three main programmes are assigned responsibilities to handle the core areas in managing DOSM namely the management and support service, the conduct of social and demographic statistics as well as the economic statistics. In addition, state offices are set up to further strengthen the primary data collection activities i.e. censuses and surveys.

2. LABOUR FORCE STATISTICS IN MALAYSIA

2.1 Introduction

The role and responsibility to collect, analyse and disseminate the labour force statistics is undertaken by the national statistical office i.e. DOSM. There are two sources of labour statistics based on the approaches of data collection i.e. establishment approach and household approach. The main and most frequent source for labour force statistics in this country is through the conduct of the Labour Force Survey (LFS), a survey that utilised the household approach. The main objective of this survey is to collect information on the structure and distribution of labour force, employment and unemployment in Malaysia through the perspective of the supply side.

2.2 Frequency, Scope and Coverage of LFS

Initially, LFS was conducted for the region of peninsular Malaysia in 1974. However, annual LFS is conducted since 1982, providing a rather long time series for the key indicators

of annual labour force statistics. Starting from 1998, the survey has quarterly periodicity and subsequently, since 2004 and onwards, the LFS is conducted every month. The increase in the frequency of data collection is to fulfil the increasing demands for timely statistics by stakeholders and the general users as inputs for evidence-base decision making.

The LFS uses the face-to-face interview method in which trained enumerators visited households in selected living quarters (LQs) to collect demographic particulars of all household members and detailed labour force particulars of all members aged 15 years and over. The LFS covers both urban and rural areas of all states in Malaysia. A total of twenty-five per cent of the monthly allocated samples are repeated for the next quarter. This repeated LQs are interviewed through the telephone by Computer Assisted Telephone Interview (CATI) method.

The survey population is defined to cover persons who live in private LQs and hence excludes persons residing in institutional LQs such as hotels, hostels, hospitals, prisons, boarding houses, and construction work site.

2.3 Sampling Frame and Design of LFS

The frame used for the selection of sample for LFS is based on the Household Sampling Frame which is made up of enumeration blocks (EBs) created for the Population and Housing Census that was updated from time to time. EBs are geographically contiguous areas of land with identifiable boundaries created for survey operation purposes, which on average contains about 80 to 120 living quarters. Generally, all EBs are formed within gazetted boundaries and are made up of urban and rural areas as defined for the operational purpose of the Population and Housing Census.

A stratified two-staged sample design is adopted where the primary stratum is made up of the states in Malaysia while the secondary stratum is made up of urban and rural areas within each state. Two-stage sample selections are implemented and samples are drawn randomly. The first stage units of sample selection are the EBs while the second stage units are the LQs within the EBs. All households and persons within the selected LQs are canvassed. At every stage of selection, the units are selected systematically with equal probability within each level of the secondary strata.

2.4 Concepts, Definitions and Classification

Internationally accepted and recommended standards are adopted in terms of the concepts; definitions and classifications used in the LFS to ensure comparability. The key reference used for LFS is as proposed by the International Labour Organisation (ILO) through the *Manual of Concepts and Methods: Surveys of economically active population, employment, unemployment and underemployment*.

As such, this survey comprises the economically active and inactive population while the analysis is limited to those in the working age of 15 to 64 years during the reference week i.e. seven days prior to the interview week. The economically active are those who are either employed or unemployed. Meanwhile, those who are inactive are classified as outside labour force.

2.4.1 Definition of employment, unemployment and outside labour force

2.4.1.1 Employed

Employed persons are all persons who, during the reference week, worked at least one hour for pay, profit or family gain. Also considered as employed are persons who did not work during the reference week because of illness, injury, disability, bad weather, leave, labour dispute and social or religious reasons but had a job, farm, enterprise or other family enterprise to return to as well as those who are temporary laid-off but are paid and would definitely be called back to work.

Employed persons who work less than 30 hours a week due to the nature of their jobs but are available for and are willing to work additional hours during the reference period are defined as underemployed. This definition is also used as a proxy for part-time workers.

The LFS obtained and only analyse information on a person's principal job during the reference week.

2.4.1.2 Unemployed

The unemployed are classified into two categories: the actively unemployed and the inactively unemployed and are defined as follows:

- i. The actively unemployed include all persons who did not work during the reference week but were available for work and actively looking for work during

the reference week. The reference period for seeking work is three months preceding the interview week.

- ii. Inactively unemployed persons include persons who did not look for work because they believed no work was available or that they were not qualified; persons who would have looked for work if they had not been temporarily ill or had it not been for bad weather; persons who were waiting for results of job applications; and persons who had looked for work prior to the reference week.

2.4.1.3 *Outside labour force*

All persons not classified as employed or unemployed are classified as outside labour force. This category consists of housewives, students (including those going for further studies), retired, disabled persons and those not interested in looking for a job.

2.4.2 **Adaptations and Adoptions of Classifications**

Responses for each of the questions in LFS, especially those relating to socio-demographic and economic characteristics of the respondents are ensured to comply with definite, consistent and internationally comparable classifications and are regularly updated in line with any updates by the international community.

2.4.2.1 *Level of education*

Education is measured through the formal educational attainment as well as the highest certificate obtained. These classifications are adapted from the *International Standard Classification of Education (ISCED)*.

2.4.2.2 *Status of employment*

The classification of a person's position or status in employment adapts the recommendation of ILO i.e. *International Standard Classification of Employment (ISCE)*.

2.4.2.3 *Occupation*

Occupation is classified according to *Malaysia Standard Classification of Occupations (MASCO)* based on the *International Standard Classification of Occupations (ISCO)*.

2.4.2.4 Industry

Industry is classified according to *Malaysia Standard Industrial Classification* (MSIC) based on the *International Standard Industrial Classification of All Economic Activities* (ISIC).

2.5 The estimation procedure

The estimates for the specific characteristics in the survey population are obtained through inflating the sample by the combination of adjusted weight and external weight. The adjusted weight is used to adjust for non-response in the survey. Meanwhile the external weight i.e. the up-to-date population estimates is divided into specific characteristics of state, sex, age group, citizenship and ethnic group and compared to the sample of similar characteristics. On the basis of ratios of these distributions, correction factors or weights are derived which, when applied to the sample cases, make the sample distribution conform to the external standards. The combination of these weights is then applied to the LFS sample data to obtain estimates of labour force statistics.

2.6 Dissemination and Disaggregation of LFS Statistics

The LFS is designed to be representative at the geographical areas of states and urban and rural areas. Thus, disaggregation of the estimates at various socio-demographic and economic characteristics must be interpreted with cautions and subjected to relative standard error. Hence, the monthly LFS is only disseminated for the key labour force indicators at the national level.

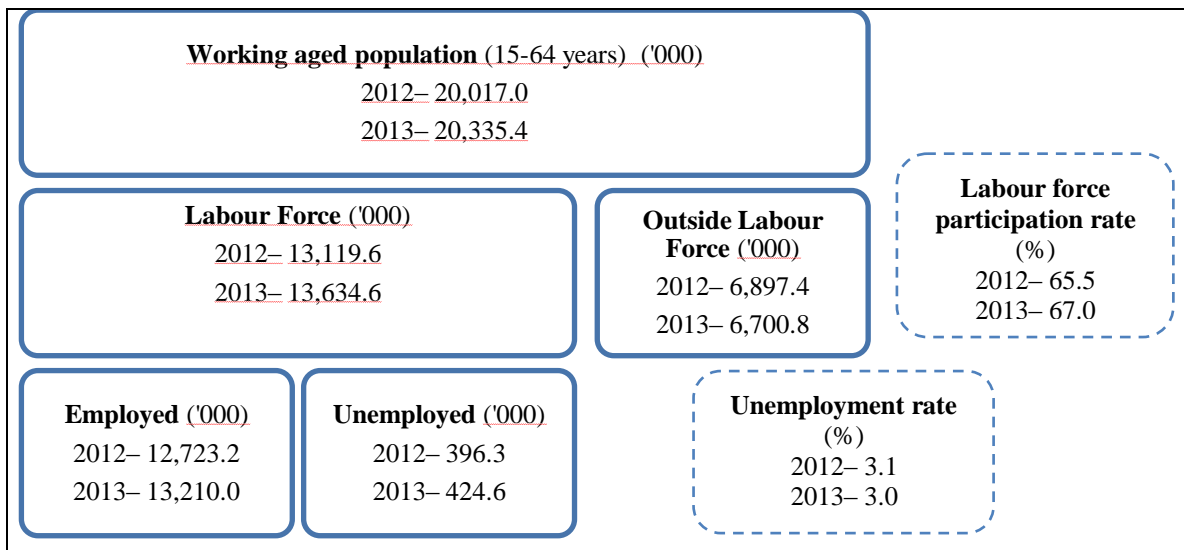
The aggregations of annual LFS statistics which are usually made available to users are as follows:

- i. the economically active population is tabulated by sex, age, level of education and urban/rural area;
- ii. the employed population is tabulated by sex, age, industry, occupation, status in employment, level of education and urban/rural area;
- iii. the unemployed population is tabulated by sex, age, level of education, and urban/rural area; and
- iv. the economically inactive population is tabulated by: sex, age, level of education and urban/rural area.

The abovementioned LFS statistics accessible to users as it is disseminated in DOSM’s website www.statistics.gov.my in accordance to the Advanced Release Calendar together with the technical notes and metadata. Meanwhile, statistics that are not published as well as the micro data are provided upon request, subjected to the reliability of the related statistics.

2.7 Presentation of Labour Force Statistics from LFS

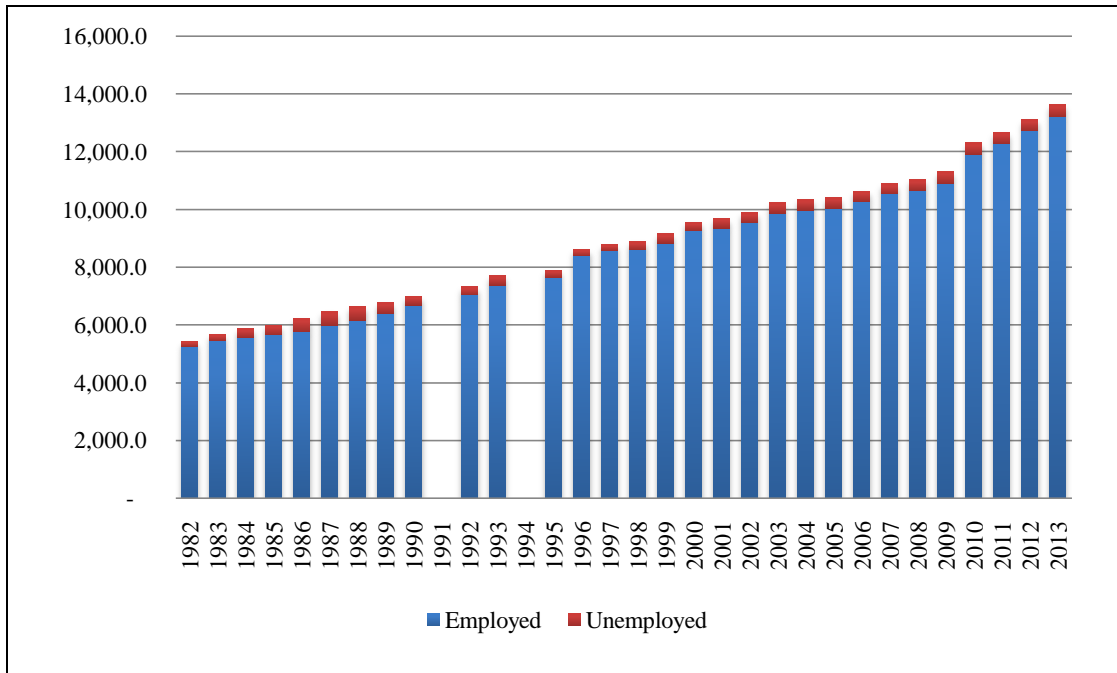
The framework of LFS in Malaysia with the breakdown of economically active and inactive populations as at the LFS 2013 is as in Figure 2.1.



Source: LFS, DOSM

Figure 2.1: Key Statistics of the Labour Force, Malaysia, 2012–2013

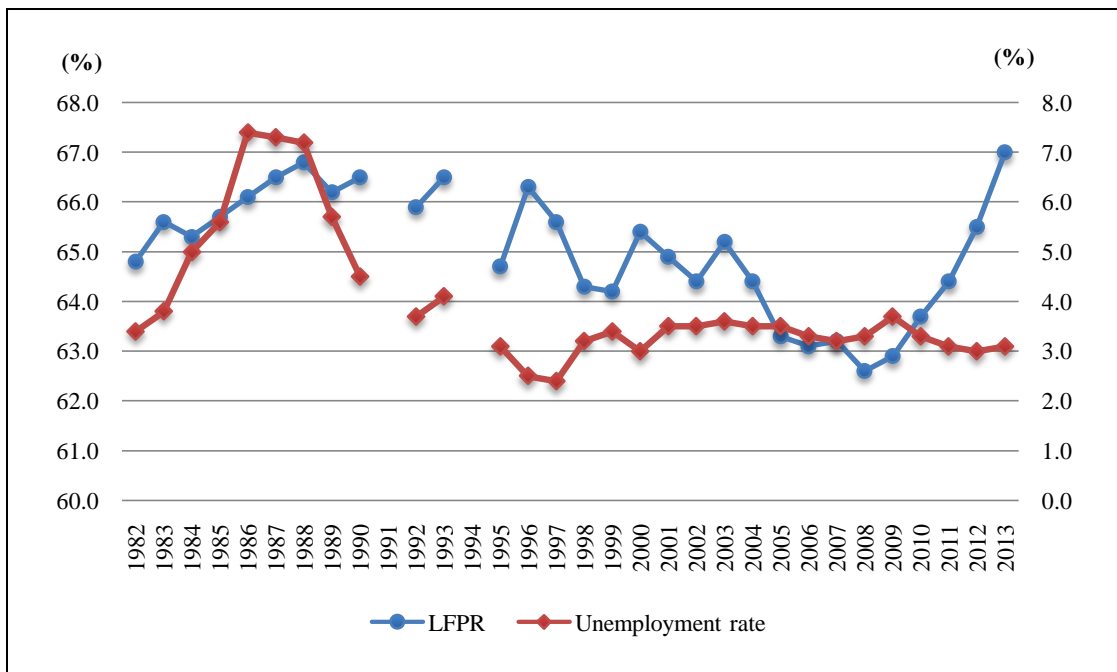
Some of the key time series statistics are presented as in Figure 2.2 to Figure 2.4. The time series statistics for other socio-demographic and economic characteristics are also made available through DOSM’s website.



Note: LFS was not conducted in 1991 and 1994.

Source: LFS, DOSM

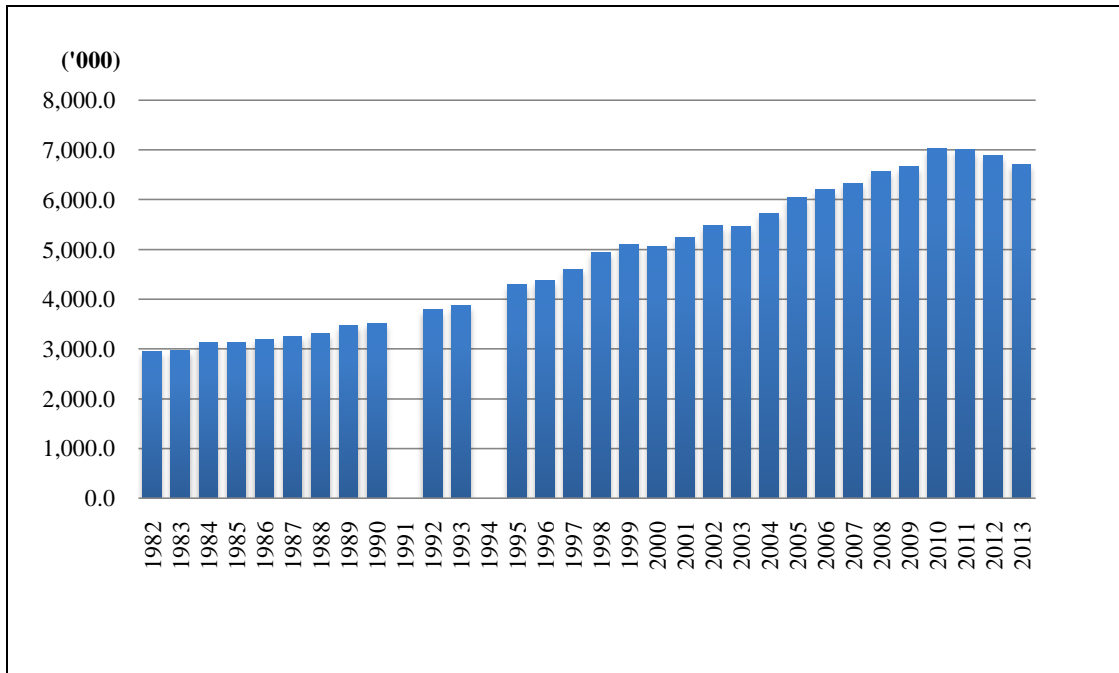
Figure 2.2: The Number and Breakdown of Labour Force, Malaysia, 1982–2013



Note: LFS was not conducted in 1991 and 1994.

Source: LFS, DOSM

Figure 2.3: Labour Force Participation Rate (LFPR) and Unemployment Rate, Malaysia, 1982–2013



Note: LFS was not conducted in 1991 and 1994.

Source: LFS, DOSM

Figure 2.4: The Number of Persons Outside Labour Force, Malaysia, 1982–2013

3. POLICY ON INFORMAL ECONOMY IN MALAYSIA

3.1 Qualitative Study on Informal Sectors

Recognizing the importance of formalizing informal businesses as well as proposing the appropriate policies and programmes to formalize and assist small and businesses, MOHR has carried out a qualitative study involving a sample of 135 self-employed and employers to identify the factors that cause the existence of informal sector. The respondents are categorised into four separate groups of informal entrepreneurs namely (i) wholly permanent (with no intention to formalize); (ii) wholly temporary (with the intention to formalize); (iii) partially permanent (with no intention to formalize at least in the foreseeable future); and (iv) partially temporary (with the intention to formalize).

The study found that four factors which caused the existence of informal sectors which are:

- i. Lack of awareness and knowledge on the rules, regulations and benefits of registering businesses;
- ii. Businesses factors such as the high cost of registration which is not cost-effective to the entrepreneurs’;
- iii. Regulatory issues such as the intention to evade tax, bureaucratic challenges in the registration procedures and lack of enforcement and actions by the authority;
- iv. Environmental barriers such as remote location of their businesses as well as own and operated by non-citizens.

3.2 Implementations of Policies and Programmes

Currently, no formal or official policy framework is available for the informal sector and informal employment in Malaysia. However, continuous efforts have been taken by the Government to ensure the legalization and formalization of informal businesses. Among these efforts are as follows:

3.2.1 Trainings and Courses

The organisation of training and courses to the informal enterprises is seen as the main role played by the government agencies to facilitate the formalisation of informal sectors. Such instances are

- i. The aims to produce new entrepreneurs after a certain period of trainings by the relevant agencies;
- ii. Periodical courses by authoritative and enforcement agencies to educate the public about business registration procedures; and
- iii. Programmes to nurture business talents among young graduates.

3.2.2 Promotional Activities to Operate a Business Formally

One of the key strategies to increase the number of formalisation among informal enterprises is by promoting the registration of a business via advisory and information distribution to the public. The example of this is mobile registration facilities to reach out to informal enterprises with lack of awareness as well as those in rural and remote areas.

3.2.3 Provision of Business Premises, Infrastructures and Facilities

Formalisation of informal sectors could be enhanced through the provision of proper infrastructure and appliances that enables business to operate efficiently, such as shop houses or proper stalls and the appropriate tools and machinery.

3.2.4 Allocation of Business Financing

The government has provided a lot of financial assistances to small and medium enterprises operating a business and this include to those microenterprises who want to kick start the business formally via microfinance and soft loans.

3.2.5 Strengthen the Enforcement Activities

Compliance monitoring activities and compound issuance are the effective ways to strengthen the enforcement activities, particularly among municipal councils. This may be achieved through the monitoring of the up-to-date businesses databases.

3.2.6 Approval of Business Licences

To fasten and to ease the process of business licence approval are another aspect that could fasten the process of formalisation of the informal sector.

4. STATISTICS ON INFORMAL ECONOMY IN MALAYSIA

4.1 Chronology of Data Estimation, Collection & Dissemination

Prior to the year 2004, there is no available official information on informal economy and employment in the informal sector for this country. However, there is pressing needs for the non-observed economy to be included in the estimation of the Gross Domestic Product (GDP), as recommended by the System of National Account (SNA).

Initiatives were undertaken by DOSM to pioneer a study on informal sector and informal employment in 2004. The pilot study tested the data collection method on selected samples that covers a few states in Malaysia. Then, in 2006, the pilot study was extended to cover the whole states in Malaysia for the survey period encompassing three months.

The first ever national Informal Sector Survey (ISS) was conducted in 2009 from August to October using household approach, as a supplement of the LFS. The findings indicated that the sample size of the survey is only sufficient to produce reliable statistical estimates on informal sectors and employment at national level. To yield a representative level of estimates until at least the state level, the 2010 ISS was conducted for a longer period of six months i.e. from July to December. The LFS and ISS questionnaire used is attached as in Appendix 1.

The statistics obtained from ISS 2010 and 2011 has been analysed and circulated for internal reference. However, the findings are only made public and disseminated through DOSM's website beginning from the ISS 2012 and 2013, after endorsement of the Statistics Main User Committee is obtained.

4.2 Scope and Coverage

Since ISS is a supplement of the LFS, the sampling design, data collection method, scope and coverage are similar to that of the LFS. Once the person is identified as employed not as public employee and in non-agriculture sector in the LFS questionnaire, the person is deemed suited to answer the ISS.

4.3 Concepts, Definitions and Classifications

4.3.1 Concepts and Definitions

The concept of informal sector and informal employment are adapted from the ILO specifically through the 15th and the 17th International Conference of Labour Statistics (ICLS). Subsequently, in 2013, the ILO published *Measuring informality: A statistical manual on the informal sector and informal employment* to provide technical guidance to agencies involved in producing statistics on informal sector and informal employment.

4.3.1.1 Definition of Informal Sector

An enterprise is classified as informal sector if they fulfil the following criteria:

- i. not registered with the Companies Commission of Malaysia;
- ii. all or at least one of the products are for sales or barter transactions;
- iii. ten or less employees and their employment are not subjected to labour legislation, social security regulations and collective agreement; and
- iv. non-agriculture sector.

4.3.1.2 Definition of Informal Employment

There are three types of informal employment as follows:

- i. Informal employment in the formal sectors that fulfil the following criteria:
 - a. employed in a registered or unregistered enterprise with ten or more employees; and
 - b. employees whom do not have explicit and written contract as well as not subjected to labour legislation, social security regulations and collective agreement.
- ii. Informal employment in the informal sectors as follows:
 - a. own account workers in their own informal enterprise;
 - b. employers in their own formal enterprise;
 - c. Unpaid family workers; and

- d. employees whom do not have explicit and written contract as well as not subjected to labour legislation, social security regulations and collective agreement.
- iii. Informal employment in households i.e. own account workers and paid domestic workers.

4.3.2 Classification used for ISS

Since the socio-demographic and economic characteristics of the members are that if the LFS, similar classifications are adopted for the purpose of analysis and tabulation of estimates.

4.4 Issues of the implementation of ISS

Household approach data is most appropriate source of employment statistics from the angle of supply side. There are issues in data collection where information from household approach is mostly obtained by proxy, not direct response. Head of households or one respondent would usually provide the information for all members within the households. Hence, there may be miss-reporting in terms of the types of enterprises and employment in which the other members work.

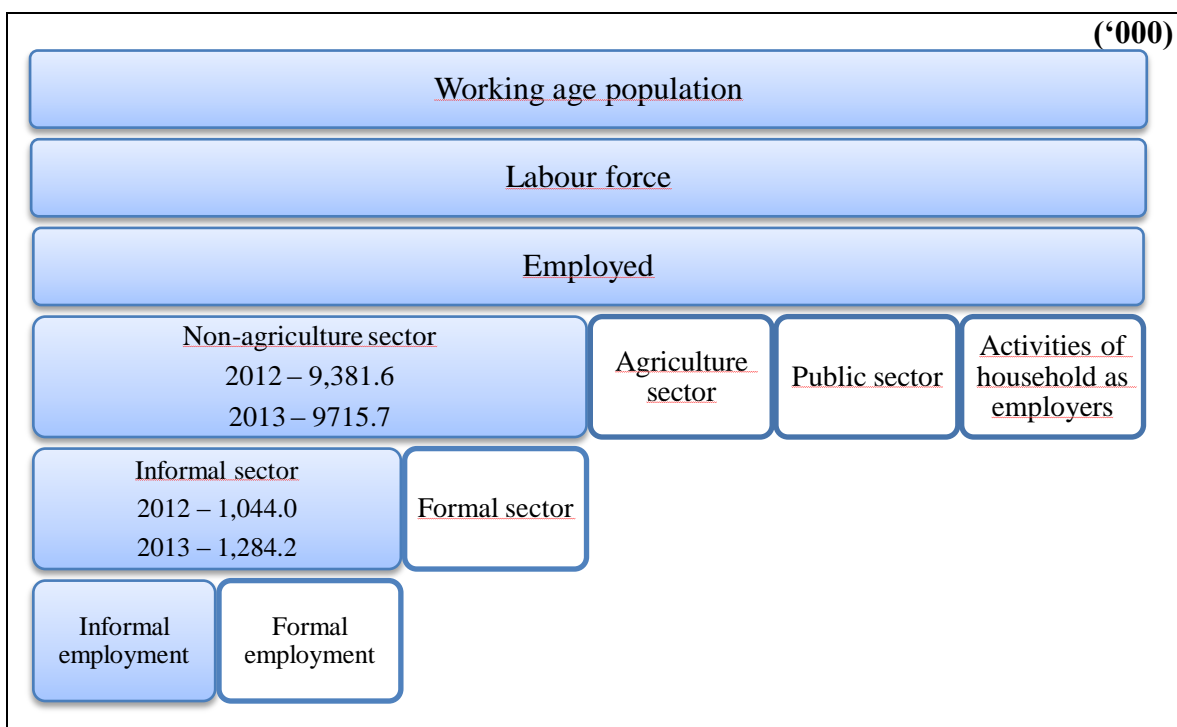
Enterprises in the informal sectors are usually not registered due to high mobility, thus, often invisible. Some of the enterprises operate within a short period of time and therefore are hard to trace. Although enterprises in the informal sectors are mostly small-scaled, there are large in numbers. Missing out on these enterprises would cause under-reporting.

In terms of informal employment, home-based activities may be misunderstood as a non-job, hence, not reported to enumerators.

4.5 Presentation of statistics on the informal economy

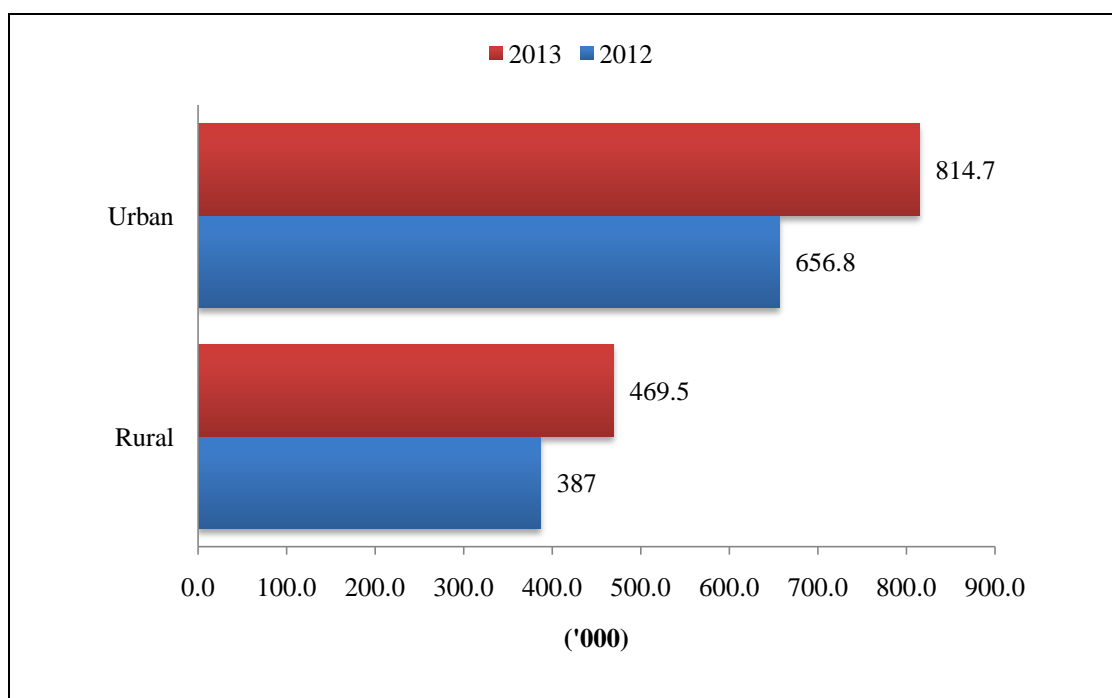
The statistical estimates of the ISS are produced using similar weighting methods as in LFS since the survey cover similar population. The statistics obtained from ISS data are presented as in Figures 4.1 to Figures 4.8. These statistics are also published in the Informal Sector Survey Report which is available in DOSM's website at www.statistics.gov.my.

Similar to the LFS statistics, the disaggregation at various characteristics is subjected to relative standard error and should be interpreted and used with great cautions.



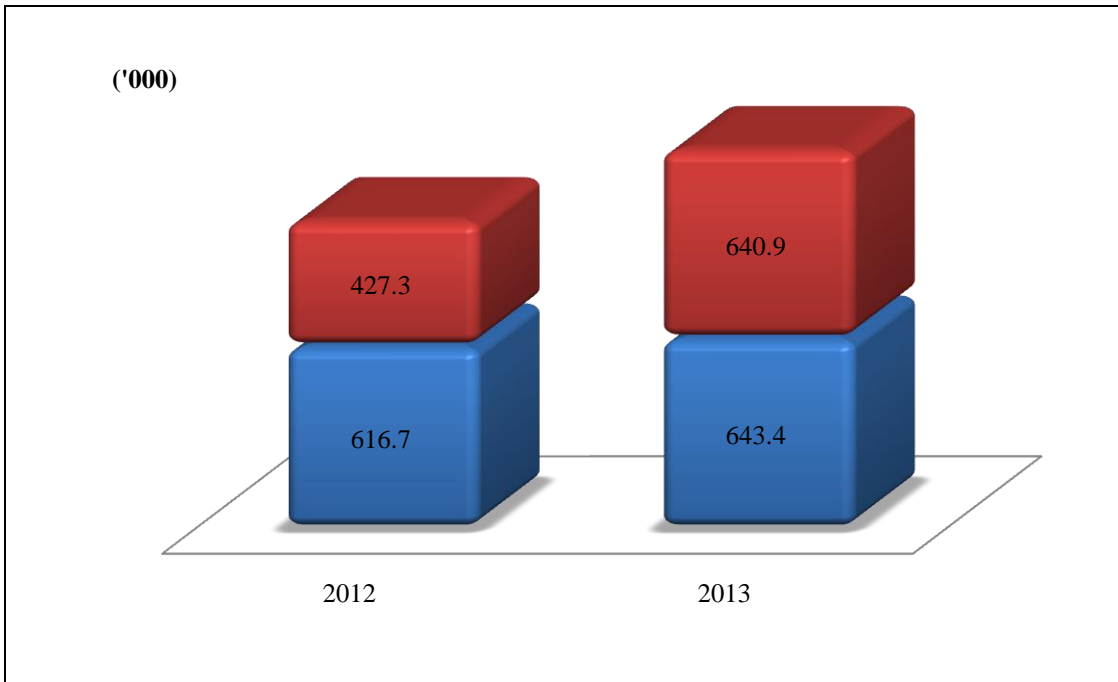
Source: Informal Sector Survey, DOSM

Figure 4.1: Framework of Employment in the Informal Sector, 2012–2013



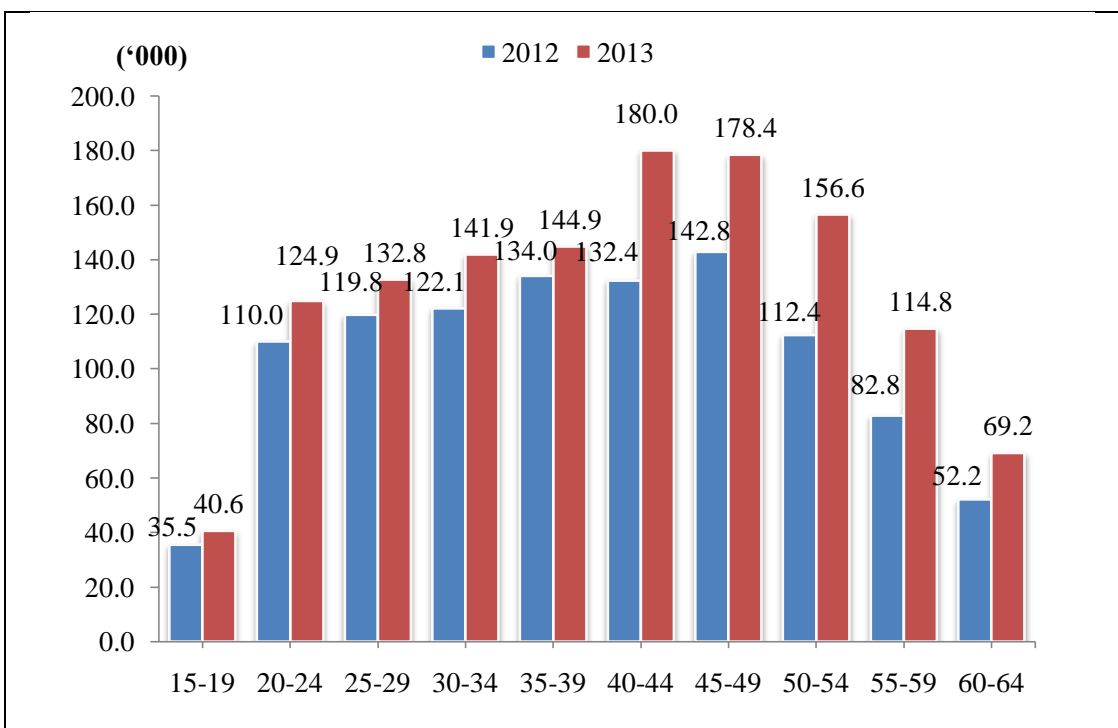
Source: Informal Sector Survey, DOSM

Figure 4.2: Employment in the Informal Sector by Urban and Rural Areas, 2012–2013



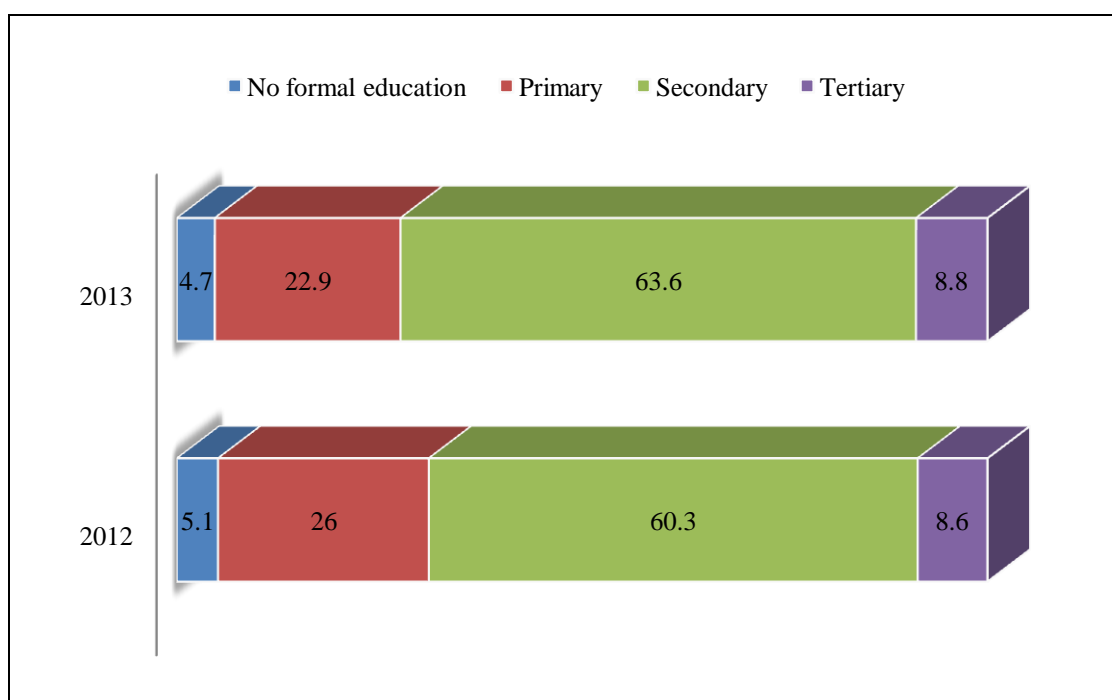
Source: Informal Sector Survey, DOSM

Figure 4.3: Employment in the Informal Sector by Sex, 2012–2013



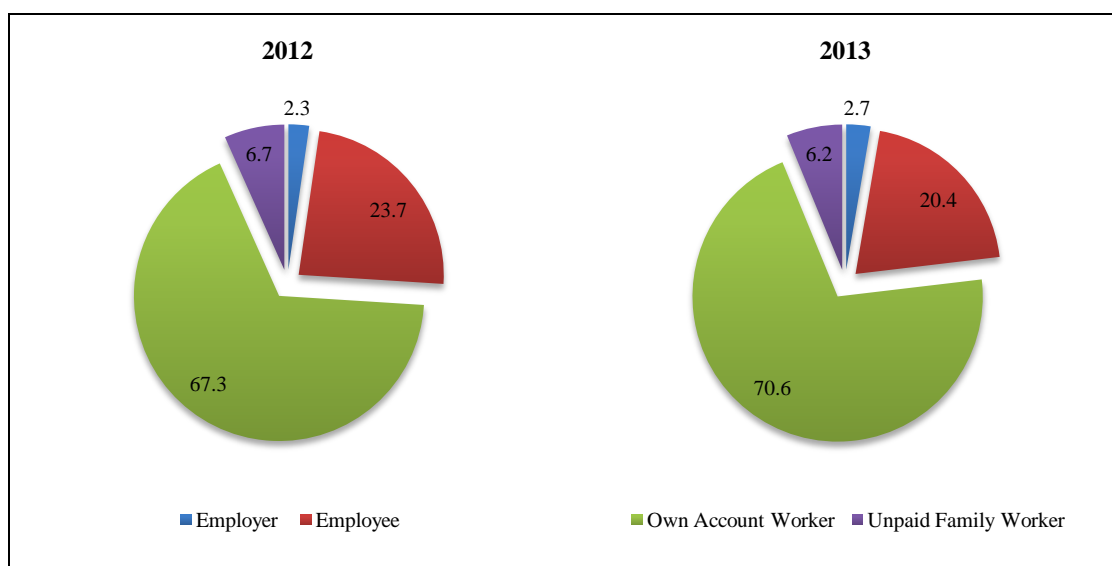
Source: Informal Sector Survey, DOSM

Figure 4.4: Employment in the Informal Sector by Age Group, 2012–2013



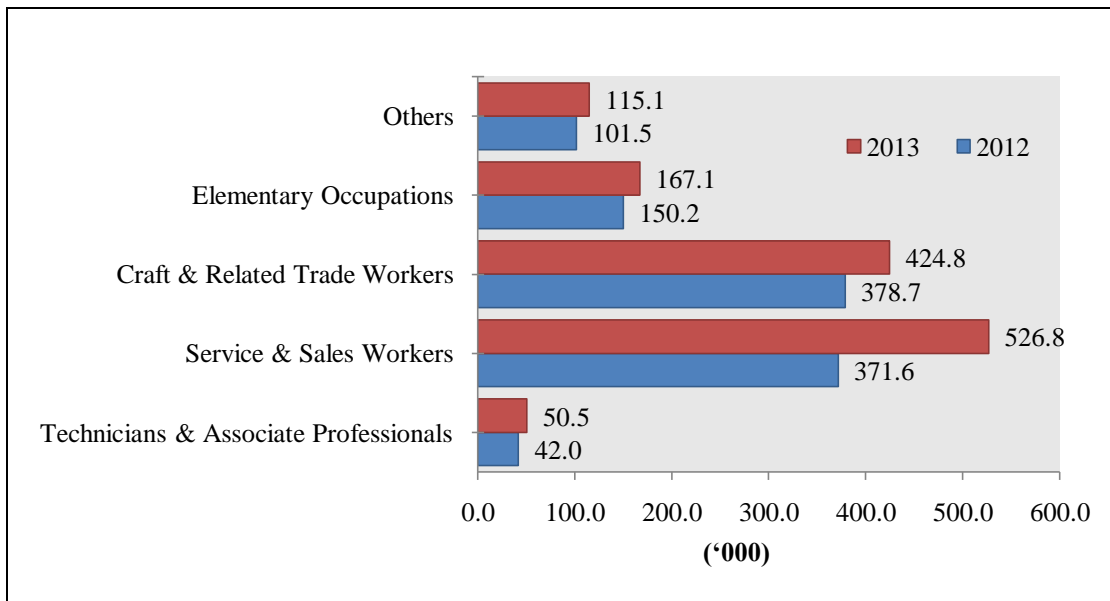
Source: Informal Sector Survey, DOSM

Figure 4.5: Employment in the Informal Sector by Educational Attainment, 2012–2013



Source: Informal Sector Survey, DOSM

Figure 4.6: Employment in the Informal Sector by Status in Employment, 2012–2013



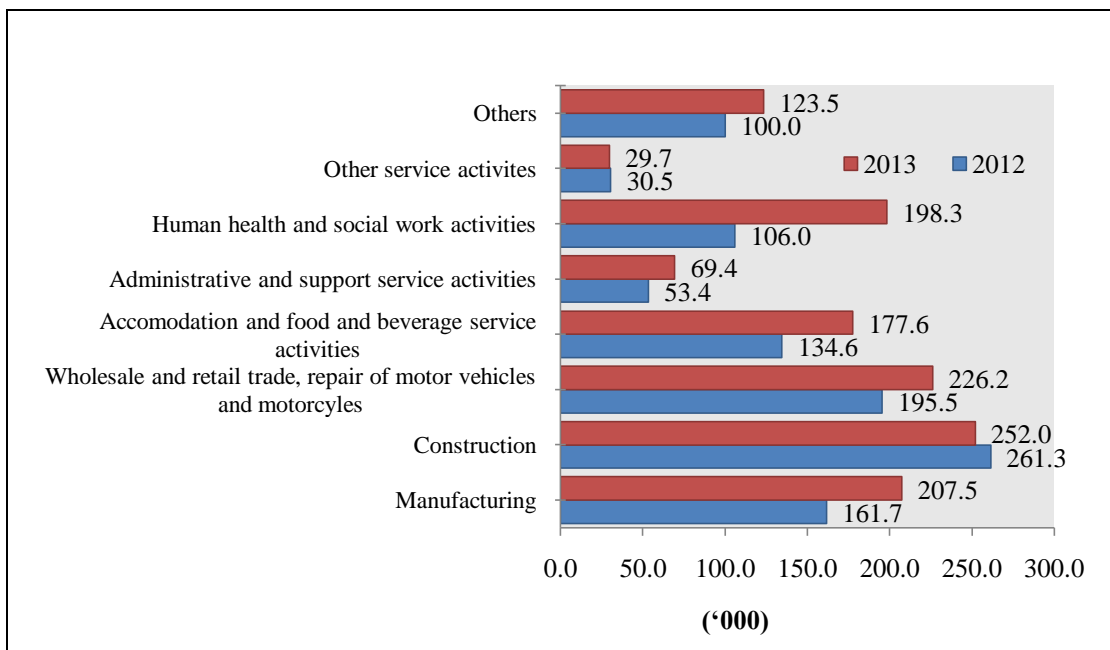
Notes:

1- Occupation is classified by **Malaysia Standard Classification of Occupation (MASCO) 2008**

2- Others refers to the occupation category of Managers; Professional; Clerical Support Workers; and Elementary Occupations. Statistics for Others occupation categories are not published separately due to high relative standard errors.

Source: Informal Sector Survey, DOSM

Figure 4.7: Employment in the Informal Sector by Occupation, 2012–2013



Notes:

1- Industry is classified according to **Malaysia Standard Classification Industrial Classification (MSIC) 2008 version 1.0**

2- Others refers to the categories of Mining and quarrying; Water supply; sewerage, waste management and remediation activities; Transport and storage; Information and communication; Financial and insurance activities; Real estate activities; Professional, scientific and technical activities; Education; and Arts, entertainment and recreation. Statistics for the categories of Others are not published separately due to high relative standard errors.

Source: Informal Sector Survey, DOSM

Figure 4.8: Employment in the Informal Sector by Industry, 2012–2013