

# *Role of Informal Employment to the Economy*

I Nengah Suarmanayasa

Economics Faculty

Universitas Pendidikan Ganesha

[nengah.suarmanayasa@undiksha.ac.id](mailto:nengah.suarmanayasa@undiksha.ac.id)

Bali-Indonesia

Gede Putu Agus Jana Susila

Economics Faculty

Universitas Pendidikan Ganesha

[janos\\_undiksha@yahoo.com](mailto:janos_undiksha@yahoo.com)

Bali-Indonesia

Ida Bagus Koman Suarmaja a

Economics Faculty

Universitas Pendidikan Ganesha

[ibsuarmaja@gmail.com](mailto:ibsuarmaja@gmail.com)

Bali-Indonesia

**Abstract**—This study aimed to determine the differences in welfare between formal and informal employment in Bali, the differences in welfare of informal employment between regencies/cities in Bali and the contribution of informal employment to the economy of Bali. This study used secondary data in the form of raw data of National Labor Force Survey (Sakernas) in the year of 2018, which was obtained from Statistics Indonesia (Badan Pusat Statistik) of Bali Province. The data collection technique used was documentation method. The data were then analyzed with descriptive analysis, independent samples t test analysis, and oneway ANOVA analysis. The results showed that there were differences in the average income and welfare of formal and informal employment. Formal employment have higher average incomes than what informal employment have. There are three groups of regencies/cities that have an average income of informal employment who tend not to differ in each group. Informal employment in Denpasar City have the highest average income compared to informal employment in other regencies in Bali. Bali's economy is more dominated by the number of informal employment than formal employment. The largest contribution of informal employment is in the fields of agriculture, plantation, forestry, hunting and fisheries

**Keywords**—formal employment; informal employment; economy

## I. INTRODUCTION

Development is an effort carried out continuously by a nation to achieve a better welfare of the society. The development can be seen from the economic growth and progress of the social conditions of the community. Economic growth is a process of increasing the production of goods and services in the economic activities of the community, while the social condition of the community is a process of improving the life quality of the community [1]. Therefore, development should lead to a total change in a society as an effort to adjust the social system, without ignoring the diversity of basic needs and desires of each individual, social and cultural group as well as the regions. The changes of the

policy in the economic structure should be developed in line with the challenging global developments in terms of product excellence and competitive ability [2].

The development of an area can be optimal if it is supported by data which can represent the actual situation. It will be able to show the characteristics and potential of an area. Economic growth often becomes the primary thing analyzed to determine the development of regions. One of the indicators used to measure the success of regional economic development is through an analysis of the structure and development of the Gross Regional Domestic Product (GRDP). Bali's economic growth is ranked 11th compared to the economic growth of the other 33 provinces in Indonesia. Bali's economic growth which was 5.59 was even higher than the national economic growth which was 5.07 in 2017

Bali's economic growth, seen from the GRDP, seems to fluctuate from year to year. The following presents the development of Bali's economic growth from 2013 to 2017. Bali's economic growth increased from 2013 to 2014. Although there was a slight slowdown in 2015, this did not last long. The economic growth increased again in 2016. Bali economic development cannot be separated from the role of employment. Good economic growth will certainly lead an area to the success of development and to the increase of community welfare. Society is the employment. Without employment, business absorption cannot succeed, and this affects the value of GRDP. At the end, the success of development will not be achieved, and neither will the welfare of the community. Employment, business fields, successful development and community welfare build a chain that continues to rotate. When one of them does not move, it will affect the movement of other aspects in the chain.

The existence of informal employment is like two sides of a coin. On one side, informal employment show the government's failure related to labor issues. Up until recently, the number of informal employment exceeds the formal

workforce. It shows that most of our employment do not have permanent job and are unprotected. On the other side, informal workers are the saviors of the government. The existence of the informal sector enables the employment who are unable to enter the formal sector participate in economic activities, so that they are employed.

Informal employment are often associated with the employment who are unable to compete for jobs in the formal sector, because of either education or expertise. The informal sector itself tends to be volatile and very vulnerable to economic shocks. The informal sector is often associated with democratic economy. However, the informal sector can be a stepping stone for the employment to start their own businesses. It starts from a small-scale economic activity that is only carried out alone. When the business activity develops and starts employing permanent/paid employment, the business will turn into formal sector. The informal sector can also train the entrepreneurial skills of new graduates so that they are not only dependent on employers but can instead create jobs. Based on the description in this background, the main issues in this study are as follows.

- 1) Is there any difference in welfare between formal and informal employment in Bali?
- 2) Is there any difference in welfare of informal employment between regencies/cities in Bali?
- 3) Do informal employment contribute to Bali's economy?

## II. LITERATURE REVIEW

### A. Concept of Employment

Manpower is the entire population considered to have the potential to work productively. This means that people who can produce goods and services can be called manpower. There are three empowerment approaches based on the measurement of economic activities used as benchmarks for employment analysis, namely the Gainful Worker Approach, Labor Force Approach, and Labor Utilization Approach. Each concept or theory is explained as follows.

- *Concept of Gainful Employment Approach*

According to the Ministry of Manpower and Transmigration, the informal sector is all commercial and non-commercial businesses that are not registered, do not have a formal organizational structure and have the characteristics of: family owned, small-scale activities, labor-intensive, using technology that is adapted and dependent on local sources. Meanwhile, according to Labor Law No. 13/2003, informal employment refer to people who work at the employment relationship, which means that there are no agreements governing the elements of work, wages and power.

Reference [1] explains the characteristics of informal sector. They are (1) goods and services are produced in a small-scale, (2) production unit is owned by individual or group, (3) it is labor intensive, (4) the technology used is relatively simple, and (5) the employment usually do not have formal education, skills and working capital. Therefore, the productivity and income of the business in informal sector

tend to be low compared to business activities carried out in the formal sector. The income of informal employment is not in the form of fixed wages every month, like formal employment. The wages in the formal sector are intervened by the government through Provincial Minimum Wage (UMP) regulations, while the income of informal employment is free from government interference.

There are six standard characteristics of informal sector activities according to the ILO: (1) all activities rely on surrounding resources; (2) the business scale is relatively small and is a family business; (3) its activities are supported by appropriate and labor-intensive technology; (4) the employment are educated or trained in informal patterns; (5) all activities are outside the route regulated by the government; (6) its activities are moving in a very competitive market.

This concept explains the economic activities of people who have worked or are usually done by someone (usual activity). For example, for the people who usually go to school but in the present condition are looking for work, they are classified as people who go to school. This theory cannot statistically describe the condition of those who work and are looking for work, so the open unemployment rate is relatively small.

- *Concept of Labor Force Approach*

This approach provides a clear boundary of the activities carried out in a week, so that it can clearly be known what activities are carried out as the main activities. This approach is better known as the current activity approach in a certain period.

- *Concept of Labor Utilization Approach*

This approach is intended to further refine the concept of the workforce, so that it is more in line with the situation of developing countries. The approach of this concept is aimed at looking at the potential of the workforce, whether it has been fully utilized.

### B. Concept of Informal Sector

According to the Ministry of Manpower and Transmigration, the informal sector is all commercial and non-commercial businesses that are not registered, do not have a formal organizational structure and have the characteristics of: family owned, small-scale activities, labor-intensive, using technology that is adapted and dependent on local sources. Meanwhile, according to Labor Law No. 13/2003, informal employment refer to people who work at the employment relationship, which means that there are no agreements governing the elements of work, wages and power.

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### C. *The Concept of Labor according to Statistics Indonesia*

Reference [3] states that the labor theory approach used at Statistics Indonesia (BPS) is Standard Labor Force Concept. The population is classified into working age population and non-working age population. The working-age population is divided into two groups, the workforce and non-workforce. The measurement is based on the reference period (time reference), which is the activity carried out during the past week, which ended the day before the enumeration. The working age is limited to only residents aged 15 years and over.

The concept of work includes the residents who are working and residents who are temporarily unemployed.

- 1) Working is an activity of doing work with the intention of obtaining or helping to obtain income or profit for at least one hour in the past week. The work for one hour must be done continuously and not interrupted. The income includes wages/salary/income including all benefits and bonuses for employment/employees and business results in the form of rent, interest and profits, in the form of both money and goods for employers.
- 2) Temporary unemployed is a person who has a job/business but in the past week, (s)he is not actively working for example because of illness, leave, waiting for harvest, strikes, study leave and so on.

## III. METHOD

### A. *Research Methods*

A quantitative descriptive research approach is a research approach that emphasizes the theory testing conducted by measuring research variables with numbers and analyzing data with statistical procedures, then supplementing them with descriptive explanations of the phenomena that occur in the field and revealing findings in field [4].

### B. *Scope and Data of the Study*

The data used in this study were secondary data, which was the 2018 National Labor Force Survey (*Sakernas*) raw data obtained from Statistics Indonesia of Bali Province. In August 2018, National Labor Force Survey was conducted in all regions of the Republic of Indonesia with a sample of around 200,000 households, spread over 20,000 census blocks in all provinces in both urban and rural areas. Out of the 20,000 census blocks, 5,000 of them are quarterly National Labor Force Survey samples and 15,000 census blocks are additional National Labor Force Survey samples. With a view to obtaining estimated data up to the regency/city level. In Province of Bali, the number of samples studied was around 3,840 households, spread across 384 census blocks covering urban and rural areas.

### C. *Data Analysis Technique*

Data analysis techniques used were 1) descriptive analysis, 2) independent samples t test analysis, and 3) one-way ANOVA analysis. Descriptive analysis functions to explain the situation, symptoms, or problems and describe the characteristics of each variable. The descriptive analysis serves to describe/give a description of the object under study through sample data as is the case [4].

Independent samples t test analysis was used to prove whether there was an average difference between 2 (two) samples that were mutually independent. Anova analysis (Analysis of variances) was used to conduct multivariable comparative analysis. Comparative analysis technique by using the "t" test, looking for significant differences from the two means, was effective only when the number of variables was two. Anova was used to compare population averages rather than population variations. The right type of data for ANOVA was nominal and ordinal on the independent variable. If the data on the independent variable was in the form of intervals or ratios, it must be changed first in the form of ordinal or nominal. The dependent variable was interval or ratio data.

## IV. RESULT AND DISCUSSION

Welfare is one of the factors driving the workforce to enter certain economic sectors. The level of welfare in this paper is measured by the income received by employment every month. The statistical test results found that there were differences in average incomes between formal and informal employment. Average formal labor income was greater than the average informal labor income. The average of formal

labor income was Rp. 1,722,003, while the one of informal employment was Rp. 562,187.

The results of data analysis found that the growth of informal labor between regions tended to be different. The proportion of informal employment in an area can be used as an indication of the economic conditions of the area. Furthermore, in this study it was found that there were differences in the average income of informal employment between regencies/cities in Bali. The Games-Howell table show three groups of regencies/cities that had average incomes of informal labor that tend not to differ within groups.

The first group with low average informal labor income was the informal employment in Tabanan, Klungkung, Bangli, and Karangasem Regencies. The second group which consist of the informal employment with an average income higher than the first group was the informal employment in the regencies of Badung, Jembrana, Gianyar, and Buleleng. The third group of informal employment having the highest income was the informal employment in Denpasar City. They have a fairly high average income, exceeding other regencies/cities in Bali. This condition might occur considering that Denpasar is the capital of Bali Province. Denpasar often becomes the destination of urbanization. Employment who urbanized to the capital but ultimately cannot be absorbed in the formal sector will try to build their own businesses, supported by the condition that the capital city provides plenty of room for creative ventures. It enables the informal sector emerges and grows. The rapid economic changes in the city of Denpasar as the capital of the province affect the cost of living in this area. This condition supports the high price of production factors. This is what causes the high average income of informal employment in Denpasar.

Informal employment have an important influence on Bali economy because there are many business fields which are mainly filled by informal employment. The business fields with informal employment are mainly traditional business fields and are the main focus of community entrepreneurial activities. This condition also indicates that the business field is still far from business activities that require legality so that it is easy for the community to enter the business field.

Description of Balinese employment showing that the number of informal employment exceeds the formal employment is an important indicator of the size of the contribution of informal employment in building the economy of Bali. Figure 2 shows the contribution of informal employment to the economy of Bali according to business. The largest contribution of informal employment is in the fields of agriculture, plantation, forestry, hunting and fisheries. The percentage of the informal employment working in agriculture, plantation, forestry, hunting and fisheries are informal employment reached 93.74 %. The second largest contribution of informal employment was in the mining business fields, then followed by the construction; industry; trade, restaurants and accommodation services; transportation, warehousing, and communication; social, social and personal

services; financial institutions, real estate, rental businesses and business services; and the last is electricity, gas, and drinking water business field.

The fields of agriculture, plantation, forestry, hunting and fisheries were filled with informal employment because most of these businesses were still traditionally conducted. These business field did not prioritize employment with high education and expertise as long as they had physical abilities. Thus, it is easy for employment to work in them. They did not have to become permanent employment in certain individuals/companies. Electricity, gas and drinking water business fields were the business fields that require legality in carrying out their activities. Often, only certain companies with permanent employment can enter the business fields because these business sectors tends to require professional staff. This condition lead to the lower number of informal employment working in these business fields.

## V. CONCLUSION

Based on the results of the analysis as stated previously, some conclusions are drawn, as follows.

- 1) There is a difference in average income of formal and informal employment. Formal employment have higher average income than informal employment.
- 2) There are three groups of regencies/cities that have an average income of informal employment who tend not to differ. The informal employment in Denpasar City have the highest average income compared to informal employment in other regencies in Bali. The second group with average informal employment income that is less than the average informal employment income of Denpasar City is the informal employment in Badung, Jembrana, Gianyar, and Buleleng Regencies. The last group with an average income of informal employment which is lower than the other groups is the informal employment in Tabanan, Klungkung, Bangli, and Karangasem Regencies.

The economy of Bali is more dominated by the number of informal employment than formal employment. The largest contribution of informal employment is in the fields of agriculture, plantation, forestry, hunting and fisheries. Furthermore, the contribution of informal employment in sequence is in the mining; construction; industry; trade, restaurants and accommodation services; transportation, warehousing, and communication; social, social and personal services; financial institutions, real estate, rental businesses and business services; and electricity, gas, and drinking water business fields.

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