INFORMAL ECONOMY: A CLOSER LOOK TO ITS CONTRIBUTION TO URBAN GROSS INCOME

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ABSTRACT

Since the informal economy is unregistered, its contribution to economic growth in terms of gross income is unknown. The researcher's goal was to figure out what causes the informal economy to exist in Tuguegarao City and how it contributes to the city's gross income. The respondents were selected using purposive sampling. An open-ended and organized interview style, as well as documentary research, were used. The majority of those who work in the informal economy are women, who are married and they were in the market for nearly a decade. The respondents' reasons for participating in the informal economy were due to a lack of or insufficient work opportunities that would qualify them. Also, since government laws are not strictly followed by the former, engaging in the informal economy is much simpler than engaging in the rational or formal economy. The simplicity of making these types of economies and the lack of job prospects in the city are two factors that contribute to the nature of these small-scale and unregistered businesses. Despite the fact that they are "unregistered," informal economies contribute to the city's gross income because they pay "alkabana" to the local government as a "fee" or "tax."

Keywords: Informal Economy, Gross Income, Philippines, Urban Policy

I. INTRODUCTION

Tuguegarao is a second-class city in the Philippines and the capital of the province of Cagayan. It serves as the geographic and institutional hub of the Cagayan Valley. Its economy has steadily changed from agriculture to secondary/tertiary economic activities such as trading, commerce, and services over the last three decades. Tuguegarao's status as the provincial and regional government base, as well as one of Northern Luzon's commercial centers, ushered in the change. The region was densely populated with banking, educational, commercial, manufacturing, and tourism-related businesses. In 2013, there were 4,210 registered business establishments, with more than half in the Poblacion and less than a third (1/3) in the urban barangays. Wholesale and retail trade establishments account for 53.48 percent of all registered businesses. Finance, insurance, and real estate companies contributed 8.54 percent, while service enterprises and social facilities, which include corporate, leisure, personal, utility, and other services, accounted for 37.98 percent. There are currently 31 banks in operation in the city. Only businesses in the formal sector were included in the statistics (Wikipedia, n.d).

The Social Reform and Poverty Alleviation Act of 1988 (RA 9485) described the Philippine informal sector as "poor individuals who operate businesses that are very small in scale and not registered with any national government agency, and to workers in such enterprises who sell their services in exchange for subsistence wages or other forms of compensation..." According to Atty. Sixto T. Rodriguez, Jr., Regional Director of the Department of Labor and Employment - Regional Office No. 2, a total of 40,235 informal sector jobs were profiled in 20 municipalities of the Cagayan Valley region, according to a May 20, 2014 article from the Philippine News Agency (Department of Labor and Employment, 2014).

The many current informal economies in Tuguegarao City include sidewalk vending, flea markets, online selling, selling of staple products along the streets, and cart selling. Many of these unregistered companies seem to be taking over the city's streets and portions of marketplaces, and their numbers appear to be growing. Despite the numerous operating informal economies, the city's Commission on Audit's report of gross income reveals a 6-
year roller-coaster pattern. Being unregistered does not make the informal economy illegal; on the contrary, the local government freely accepts the informal economy as a source of jobs and a possible source of livelihood.

Aside from the contributions of the two sectors (informal sector and non-traditional jobs) to total employment, the role of the sectors in absorbing unemployed or laid-off regular employees from the formal sector during periods of economic recession is also recognized. Due to a lack of opportunities for productive employment, job seekers are forced to pursue short-term or temporary work or build work for themselves in order to survive or supplement their income. Furthermore, the informal sector is seen as a breeding ground for entrepreneurship, which can help to boost economic growth. The informal sector has a strong potential to help microenterprises expand into large businesses, and thus acts as a growth catalyst. The informal sector also employs a significant portion of the lower income class, whose informal businesses are profitable, and thus helps to alleviate poverty among these classes.

It is still unknown whether or not its "illegal" presence is detrimental to the city's development. The obvious and growing informal economies in Tuguegarao City prompted the development of this paper. The factors that led to the emergence of the informal economy in the region, as well as its contribution to the city's gross income, were investigated in this paper.

Objectives of the Study

This study intended to determine the factors that give rise to the existence of the informal economies in Tuguegarao City and its contribution on the city’s gross income.

Specifically, it sought to achieve the following objectives:

1. Determine the characteristics of the respondents.
2. Determine the reasons or factors in engaging in the informal economy.
3. Determine the contribution of the informal economies to gross income of the city.

II. LITERATURE REVIEW

Informal Economy

The informal sector was officially established as household unincorporated enterprises by the National Statistical Coordination Board (NSCB) Resolution No. 15, series of 2002, which included both own-account enterprises and enterprises of informal employers. Informal own-account enterprises are unincorporated household businesses owned and run by own-account employees, either alone or in collaboration with other members of the same or different household. They may recruit unpaid family members as well as temporary or seasonal staff, but they do not hire employees on a regular basis. Household unincorporated businesses, on the other hand, are owned and run by own-account workers, either alone or in collaboration with members of the same or other household, and which hire one or more employees on a continuous basis. Jobs in companies, quasi-corporations, units with 10 or more staff, corporate farms, commercial livestock-raising, and commercial fishing are excluded from the informal sector, according to the NSCB concept (Philippine Commission on Women, 2009).

According to Becker (2004), the informal economy is characterized by low entry criteria in terms of resources and technical credentials, a small scale of operations, skills gained outside of formal schooling, labor-intensive manufacturing methods, and adapted technology. The reproductive or care sector, which includes unpaid household labor and care practices, is not included in the informal economy. Historically, the informal economy was thought to be dominated by survivalist practices. The informal economy has been defined in a variety of ways, including undeclared labor, tax evasion, unregulated businesses, and illegal and criminal activity (Xaba, Horn & Motala, 2002). Nonetheless, the vast majority of informal economy operations offer products and services that are perfectly legal to produce and distribute. Furthermore, informal economy practices are not often carried out with the goal of avoiding paying taxes or social security payments, or violating labor laws or other regulations. However, the informal economy can involve limited illegal and limited legal activities, as well as legal and irregular operators, but no criminals (Becker, 2004).

In the Philippines, the Informal Sector Survey reported that 15.68 million people were working in the informal sector in 2008, accounting for 72.5 percent of non-agricultural jobs. Furthermore, the number of people working in informal jobs outside the informal sector is projected to be 2.49 million, accounting for 11.5 percent of non-
agricultural employment (Philippine Commission on Women, 2009). There are various forms of informality in the economy, according to Garcia-Bolivar (2006). Informal enterprises, informal work, informal contracts, informal property, and informal lending are all examples of informal activities. The contracts, ownership, funding, and labor are all done outside of the formal legal system in many of these situations. They are either undocumented, unregistered, unreported for accounting purposes, or unenforced by formal framework frameworks. Similarly, there are various degrees of informality. There are several officers that are completely uninvolved. For example, someone may have an unregistered food manufacturing company that relies on the owner's expertise, employs owner's family members as contract labor, lacks title to the land on which it operates, and is funded by the owner's own savings and sometimes by informal lenders who charge exorbitant interest rates. This company is unlikely to do business with the traditional economy and therefore does not undertake any formal economy operations. Other informal enterprises, however, that are subcontracted by the formal economy and are expected to register particular transactions, may be classified as partially formal. The evidence suggests that the relationship between formal and informal economic activity (Edgcomb&Thetford 2004). Someone with a good-paying job in the formal sector, for example, could run an auto-detailing business in her spare time as a backup plan if her formal sector job is lost or downgraded (Edgcomb& Thetford 2004).

Factors Affecting the Engagement in the Informal Economy

The phenomenon of informality can be explained by a number of factors. The most commonly mentioned in the literature is the cost of doing business under formality. High taxes, complex laws, bureaucratic stumbling blocks, and corruption seem to be the most significant factors driving an operation underground. In many nations, however, the concept of informality is far closer to reality than the formal order. In certain parts of the world, the only order that is recognised and followed is the traditional order. Since the formal order is unknown, it is not followed. In other parts of the world, the formal order is imposed by the elites and has little to do with the traditional order. As a result, many practices are carried out informally, not because of high prices, but because the order in which they are carried out has not been accepted by the formal legal system (Garcia-Bolivar, 2006). Furthermore, the informal sector's growth is inversely proportional to the formal sector's growth. This indicates that “inappropriate, inefficient, misguided, or poorly enforced macroeconomic and social policies” can play a role in its expansion. Insufficient job creation, barriers to entry into the formal sector, the inability of formal institutions to provide adequate schooling, training, and infrastructure, the exclusion of women from property and land ownership, and aspirations of eventually finding jobs in the formal sector are all contributing factors to the growth of the informal sector (Khalek, 2005).

Informal economy participants are compelled to participate not by invitation, but more likely by requirement (Williams & Round, 2007; Pfau-Effinger, 2003). Furthermore, the informal economy is depicted as “a modern mode of work arising in late capitalism as a direct byproduct of the emergence and deregulation of the open world economy” (Williams & Round, 2008). Because of the poor position of the formal economy, the informal economy is enormous in disadvantaged communities in both developed and developing countries (Williams & Round, 2007; Amin, et.al, 2002). As a last resort, marginalized communities participate in the informal sector in order to survive (Williams, 2008). As a result, within the market system, the informal sector operates as the polar opposite of the formal sector (Williams & Round, 2008; Round, et.al, 2008).

Furthermore, some people work in the informal economy because it is easier to integrate work into their other activities than working in the formal sector (Halperin 1996; Nelson 1999). For example, a mother might knit sweaters while caring for her children and then sell them at a local crafts market. Despite the fact that the amounts earned through such interstitial activities are often (but not always) small, the people who earn them sometimes regard them as significant contributions to their household economies (McInnis-Dittrich 1995, Nelson, 1999). To mitigate the risks associated with formal employment, some workers in the formal sector participate in informal economic activity (Edgcomb&Thetford 2004). Someone with a good-paying job in the formal sector, for example, could run an auto-detailing business in her spare time as a backup plan if her formal sector job is lost or downgraded (Edgcomb& Thetford 2004).

Research has identified several factors that influence the emergence and prevalence of specific types of the informal economy. One is the types of opportunities that the city's geographical and trade situation have facilitated and therefore made accessible to citizens. Seasonal casual work picking fruit and vegetables, for example, may only occur where agriculture exists, and for crops where mechanized picking is either difficult to develop or prohibitively costly (for example, apples). In villages or residential areas with few strangers and no
passing foot traffic, street robbery is not very lucrative. As every other product, drugs are traded from manufacturers to distributors to customers (Shapland, 2004).

Another consideration is whether specific resources have been monopolized by specific organizations, making entry difficult. As a result, opportunities or strategies may have been monopolized within ethnic groups, cultural groups, or by certain families, for example. Another consideration is the degree to which seizing the opportunity necessitates the acquisition of skills and techniques, as well as how these skills and techniques can be obtained. Any credit and check card fraud, for example, necessitates the use of equipment and (limited) skill, though most of this equipment is more readily accessible than many people realize. Other types of deception can necessitate bravery or bravado, but not technological knowledge. Similarly, if the opportunity results in (illegal) property, the individual must turn the property into cash or legally owned property. This is where stolen goods are sold. Authorities are increasingly on the lookout for individuals depositing suitcases of soiled notes if it results in a large amount of illegally obtained cash - there is now a demand for stolen cash as well, which takes more specialized expertise. To summarize, the informal economy is a constant undercurrent of social and economic life in European cities, though it is only partly noticeable. The topics we tried to discuss in the seminars were who is dipping into it, how they view its possibilities, how big it is, what shape it takes, and what problems it may cause (Shapland, 2004).

III. METHODOLOGY

Research Design

The study used descriptive research design to determine the factors affecting the engagement of the respondents in informal economy and subsequently determining their contribution to the gross income.

Sampling

Due to the nature of the economic activity the researcher is trying to examine, it is impossible to compile a comprehensive list of people working informally to provide a basis for selecting a representative probability sample. Therefore, the researcher used a purposive sampling method. The researcher selected people who met specific criteria and these are:

1. Selling goods or services
2. No permit to operate or do business
3. Operating within the vicinity of Tuguegarao City
4. Roughly equal number of men and women
5. Low income
6. Currently operating informally or working informally

Data Collection and Analysis

The researcher used the open-ended and structured interview format. Frequency count was used to tally the profile of the respondents. Documentary analysis was also conducted to substantiate information gathered from the respondents. Photographs of the respondents (with their consent) were also taken as evidence of the conduct of the study. For the gross income of the city, the researcher was able to download from Http://Www.Coa.Gov.Ph/Index.Php/Local-Government-Units, and notes from the yearly financial statements were consolidated to capture the breakdown of the gross income to arrive at the particular contribution of the informal economy to the reflected total gross income.

IV. RESULTS AND DISCUSSION

Table I. Profile of the Respondents

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>23</td>
<td>25.27</td>
</tr>
<tr>
<td>Female</td>
<td>68</td>
<td>74.73</td>
</tr>
<tr>
<td>Civil Status</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table I shows that majority or 74.73% of the respondents are female. Most of them are married. One respondent had been in the informal economy for more than 50 years as a “kakanin” vendor. It also shows that there are 30.79% of the respondents who had been in the industry for 1-10 years of selling foods, vegetables and street foods.

From Fig.1, it can be interpreted that majority or 45.05% of those who engage in informal economy are on selling of foods like banana que, “balut”, “binitug”, “palamig”, “kakanin”, “isaw” and other ready-to-eat foods. While the least or 6.59% engaged informal economy is of the service industry like shoe repair and unregistered barbershop.

Table II shows that majority or 74.73% of the respondents are female. Most of them are married. One respondent had been in the informal economy for more than 50 years as a “kakanin” vendor. It also shows that there are 30.79% of the respondents who had been in the industry for 1-10 years of selling foods, vegetables and street foods.

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<table>
<thead>
<tr>
<th>Reasons/Factors in Engaging in the Informal Economy</th>
<th>Freq.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 For the day to day needs of the family in order to live.</td>
<td>62</td>
<td>68.13</td>
</tr>
<tr>
<td>2 School needs of the children (e.g. uniforms, books, supplies, fees)</td>
<td>24</td>
<td>26.37</td>
</tr>
<tr>
<td>3 There are no more jobs available for them.</td>
<td>4</td>
<td>4.40</td>
</tr>
<tr>
<td>4 To buy appliance, furniture’s and other things needed in the family.</td>
<td>1</td>
<td>1.10</td>
</tr>
<tr>
<td>5 It is the easiest way to earn profit.</td>
<td>3</td>
<td>3.30</td>
</tr>
<tr>
<td>6 It is very easy to manage.</td>
<td>2</td>
<td>2.20</td>
</tr>
<tr>
<td>7 For self-support.</td>
<td>1</td>
<td>1.10</td>
</tr>
<tr>
<td>8 In order to pay debts.</td>
<td>1</td>
<td>1.10</td>
</tr>
<tr>
<td>9 For investment purposes.</td>
<td>1</td>
<td>1.10</td>
</tr>
<tr>
<td>10 Serve as side line business</td>
<td>2</td>
<td>2.20</td>
</tr>
<tr>
<td>11 For medication of family member/s</td>
<td>1</td>
<td>1.10</td>
</tr>
</tbody>
</table>

It can be gleaned in Table II that most of the respondents replied that their primary reason in engaging in the informal economy is for the day to day needs of their families in order for them to live. Some respondents entered into informal economy as a source of income in order to finance the school needs of their children. Also,
some respondents said that engaging in informal economy is the easiest means to earn as it is, the easiest to manage. Other factors like absence of job opportunities, for self-support, for medical expenses, for payment of debts and for purchasing appliances and furniture were also revealed in the interviews as their reasons as to why respondents chose to opt for informal economy.

Table III. Contribution of the Informal Economies to Gross Income of the City

<table>
<thead>
<tr>
<th>Sources/Accounts</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Taxes</td>
<td>93,863,061.73</td>
<td>117,029,908.87</td>
<td>116,736,596.54</td>
</tr>
<tr>
<td>Permits &amp; Licenses</td>
<td>13,808,464.66</td>
<td>14,537,081.14</td>
<td>15,149,745.21</td>
</tr>
<tr>
<td>Service Income</td>
<td>5,564,508.33</td>
<td>6,057,862.78</td>
<td>5,835,910.62</td>
</tr>
<tr>
<td>Business Income</td>
<td>25,802,687.37</td>
<td>34,918,457.13</td>
<td>69,867,999.06</td>
</tr>
<tr>
<td>Other Income</td>
<td>293,487,134.55</td>
<td>413,765,352.18</td>
<td>349,605,162.31</td>
</tr>
<tr>
<td>TOTAL</td>
<td>432,525,856.64</td>
<td>586,308,662.10</td>
<td>557,195,413.74</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sources/Accounts</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Taxes</td>
<td>129,134,347.21</td>
<td>141,510,115.18</td>
<td>151,723,396.02</td>
</tr>
<tr>
<td>Permits &amp; Licenses</td>
<td>14,990,242.99</td>
<td>15,050,605.05</td>
<td>17,078,815.38</td>
</tr>
<tr>
<td>Service Income</td>
<td>7,611,461.47</td>
<td>9,113,096.17</td>
<td>9,153,393.46</td>
</tr>
<tr>
<td>Business Income</td>
<td>77,773,562.27</td>
<td>87,388,605.67</td>
<td>91,675,552.98</td>
</tr>
<tr>
<td>Other Income</td>
<td>300,719,540.63</td>
<td>321,423,572.58</td>
<td>360,932,515.45</td>
</tr>
<tr>
<td>TOTAL</td>
<td>530,229,154.57</td>
<td>574,485,994.65</td>
<td>630,563,673.29</td>
</tr>
</tbody>
</table>


Fig. 2. Graphical Illustration of the Tabulated Total Gross Income

Fig. 3. Graphical Illustration of the Tabulated Income Accounts

Table III presents the 6-year gross income of Tuguegarao City and Fig. 2 and Fig. 3 show the graphical illustrations of the tabulated figures. Based on the disclosures made by the Commission on Audit on the annual financial statements of Tuguegarao City, it can be noted from Fig. 2 and Fig. 3 that gross income and the income accounts show an increasing trend from 2009-2014. From the breakdown of the gross income, local taxes (includes amusement tax, business tax, community tax, franchise tax, occupation tax, property transfer tax, real property tax, tax on delivery, trucks and vans, tax on sand, gravel and other quarry products, other local taxes, fines and penalties-local taxes), permits and licenses (includes fees on weights and measures, franchising and
Due to a lack of permits and licenses to operate, the recognized informal economies in Tuguegarao City appear to be unregistered. These economies, on the other hand, have revealed that they are paying Alkabana to the City Government when they operate or do business in the city on a particular day.

The findings of the study back up Sicat's (2011) claim that the informal sector is the "sponge" of jobs in the larger economy. Many who are unable to make a living by structured economic activities often end up in this low-income market. Such a state of affairs that affects participants in this sector of the economy often lasts for a long time. The importance of this note's lesson on the economy's informal sector should not be overlooked by Philippine policymakers. By nature, only sound economic reform will boost domestic economic conditions. According to the arguments of many discussions in this column, the course of reforms should be a reform of labor markets and an acceleration of substantive reforms to make foreign direct investment more welcome in the country. The conventional informal economy would be drastically reduced as a result of these steps. They will promote greater dynamism among small businesses that are part of the informal economy's modernizing section.

The results of the study also support Becker's (2004) study, which claimed that the poor in the developing world depend on the labor market for their survival. The informal economy, which now employs a large number of people in developing countries, has expanded significantly in recent decades. The key explanation for this expansion appears to be that formal labor markets have been unable to produce adequate job opportunities and absorb an ever-increasing, mostly unskilled workforce. The informal economy thus offers income opportunities for those who have no other means of subsistence. However, it is often claimed that citizens participate in informal economic practices willingly as a result of unnecessary government taxation and regulation.

Due to a lack of permits and licenses to operate, the recognized informal economies in Tuguegarao City appear to be unregistered. These economies, on the other hand, have revealed that they are paying Alkabana to the City Government. As a result, the City Government used business income as a part of total income. And, for the purposes of this study, it was determined that business profits increased from 2009 to 2014. According to the report, the informal economies contribute to the city's overall income by taxation.

V. CONCLUSION AND RECOMMENDATION/IMPLICATIONS FOR FURTHER RESEARCH

Informal economies are now an integral part of the economic system. Factors that give rise to the existence of low-scale and unregistered enterprises are the ease of having these types of economy and having no job opportunities available in the city. However, despite being “unregistered”, informal economies are still contributory to the gross income of the city because they are paying “alkabana” as a “fee” or “tax” paid to the local government.

Avenues for business opportunities, legal or not, regulated or not, are uncontrollable and unstoppable. For one, Informal Economies are legal and unregulated but their existence is legally recognized. Without a doubt, informal economies play a great role in social and economic development. Informal economies are means for some of the poor, underprivileged and less fortunate members of the society to elevate their social status and to
support their living. Looking into a wider perspective, the local and national governments have a great role to play in the system to where informal economies are critically situated. Formalizing them is one thing but for time being, the most practical thing that could be done is to support their existence. Taxing them through “alkabana” is still not a way to qualify them as formal or legal. On the other hand, governmental support system could be done by enacting policies or ordinances from the barangay level to regulate their existence. By regulating so, imposition of minimal taxes and securing licenses with costs that is not beyond the means of these sectors could be feasible yet helpful for a win-win situation between informal economies and the government.

REFERENCES