

Regulations, Costs and Informality: The Case of Fiji

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ABSTRACT

Informal sector is considered to be a 'cushion' for the majority of workers in the developing world, where the formal sector jobs are limited and social securities for the unemployed do not exist. While the size of the sector is quite large in the developing world, it appears to be relatively low in Fiji even when the economic growth of the country has been abysmally low during the last three decades. This is because the entry requirement to the informal sector has been quite stringent and time consuming, and may have led individuals to either remain unemployed or concentrate on subsistence production. Relative flexibility for entry and running businesses in the informal sector would not only improve the economic condition of the workers, but also overall economic growth. Separate and flexible legislations are, therefore, needed for the informal sector to grow and contribute to the economy.

Keywords: *Informal sector, starting business, governance, regulation*

INTRODUCTION

An individual who does not find any engagement in the formal setting with a clear set of rules and regulations often goes outside the sector to find employment for survival. This sector is known as the 'informal sector' and the size of the sector happens to be substantially large in the developing world (See ILO 2012). While the size and level of informality, as defined in the literature, is associated with unpleasant images of developing countries often draped in poverty reflecting social insecurity, low productivity, and non-compliance with laws and regulations, no doubt it addresses to a large extent the unemployment problems and social security. Despite many associated ills of the sector, it has the huge potential to absorb workers, and played a very important role at various stages of development and transition in the past in several parts of the world (Lewis, 1954). Such employment has increased in recent years and appears to be an integral part of the developing economies around the world. In some respects, the expansion of the informal sector precludes the establishment and expansion of the formal sectors (Chen, 2007; ILO-WTO, 2009; Maiti and Sen, 2010). In recent years, many developing countries have espoused the importance of the informal sector towards national employment and overall development. The most important challenge for the development practitioners is to find out suitable strategies to graduate more and more workers from the informal to the formal sector. On the one hand, a lot of attention is now being given to understand the contribution of informal sectors and design flexible strategies to promote the sector so that they could raise earnings and productivity and eventually shift to the formal sector. On the other hand, various countries bring rigidity to discourage such activities in the informal sector. But, it is often argued that regulations tend to impose constraints and distort the markets where the fundamentals are not strong. In such circumstances, incentives for factor reallocation, capital accumulation, competition, and innovation remain subdued (De Soto, 1989; Loyaza et al., 2005). A developing economy always has a dilemma to choose which one should be adopted, particularly when unemployed workers cannot be compensated for social benefits. This is the vital question for sustainable growth and development of Fiji as well, when it has been able to lift up the economic growth in recent years after a couple of decades. This paper attempts to investigate the size of the informal sector in Fiji and offer some explanations for this.

Conventionally, it is considered that the level of informality tends to be a bit higher in the presence of greater regulation (Loyaza, 1994; Schneider and Enste, 2000; Besley and Burgess, 2004; Williams and Round, 2007 & 2008). The obvious conclusion is that the relative size of informality is likely to be high if the cost of entry into the formal sector is high. Whether this is always true remains a question. It can be argued that if the level of rigidity in rules and regulations for organising activities in the informal sectors is high, the semi-skilled and unskilled workers who can find employment in the formal sector would prefer to remain unemployed or rely on 'subsistence'. With greater freedom and flexibility nascent entrepreneurship located in the small scale enterprises could flourish. The study attempts to investigate this issue for Fiji.

Fiji is a small island economy with limited economic activities and has shown poor growth during the last three decades. It belongs to lower middle income group with a little higher than \$4000 USD per capita annual income. The informal sector is estimated to be contributing

around 17.1 percent of GDP on average from 2008 to 2010. With regards to the size of informal employment, around 42.3 percent of all employed persons on average were employed in the sector during this period, while around 12.9 percent were considered to be subsistence workers. According to the joint report produced by ILO and World Trade Organisation in 2009, the size of informal economy as a percentage of GDP¹ was 30.4%, 26.8% and 21.2% respectively in North Africa, Asia and the Caribbean region. The informality as a percentage of employment was 52.2 percent in Latin America, 78.2 percent in Asia and 55.7 percent in Africa.² It appears that the size of informality in Fiji is slightly lower than that of comparable developing countries. This is an important observation when the Fijian economy has not even grown more than 1.5 percent (annually) during the last three decades and the industrial sector has not demonstrated any significant growth. As a result of the low growth, a significant section of the population still lives under subsistence. This paper looks at the conceptual issue of the informal sector and its size for Fiji. The rest of the sections are organised as follows: Section 2 explores the definitional issues in the backdrop of international definitions and statistical standards; Section 3 provides an account of labour market conditions and the size of informality. The Section 4 of the paper provides some analyses and Section 5 provides some concluding remarks.

INFORMAL SECTOR: CONCEPT AND BACKGROUND

Generally speaking, the ‘informalisation’ of the economy represents impoverishment of the economy. Due to lack of development combined with unmatched industrial and labour regulations, such economies cannot provide decent employment to a large proportion of the working population. In a less regulated environment, workers who do not find employment in the formal sector often engage in productive activities in the informal sector. Where the labour laws are broadly binding and strictly complied, employment in the informal sector may become prohibitive.

On the other hand, in a more relaxed industrial environment, the existence of informal sectors and subsectors provide an avenue for alternative to formal employment. Estimating the size of this informal sector is difficult, because the characteristic features of defining informality are wide and heterogeneous across regions and countries. The measurement difficulties are seen in the existing literature. Broadly speaking, the informal sector refers to the units involved in production of goods and services, with the aim of providing income and employment to the persons who neither have jobs in the formal sector nor receive any benefits such as social security, medical, or unemployment benefits. *Secondly*, since the rules and regulations are not strictly applied, the workers engaged in these activities are often not paid according to their marginal productivity. Moreover, they could be engaged in very small production units at a low scale and with extremely low returns. Mostly, it is observed that a large part of their activities involve production at the household level. Hence, production units of the informal sectors have the characteristic features of household enterprises and do not separate the assets required for business purposes from household items used for consumption. *Thirdly*, the individuals are usually engaged in such activities parallel to other household works and, therefore, it is often difficult to differentiate their marginal contribution from other domicile activities. *Fourthly*, the units engaged in informal transactions or contracts from other units bear full liabilities on their own. The owners

have to raise the necessary finance at their own risk against any debts or obligations incurred in the production process. Expenditure for production is often indistinguishable from household expenditures. Similarly, capital goods such as buildings or vehicles may be used indistinguishably for business and household purposes. Sometimes, the fixed and other assets used in production units do not belong to them, but are supplied by the master enterprises or contractors, where the sole responsibility for any damages lies with them. As a result, it is problematic to maintain their account accurately. Moreover, most of these activities meet seasonal and local demands. They are unable to run throughout the year either due to lack of capital or insufficient demand. So, the size of the informal sectors should account for an extent of underdevelopment, exploitation, uncertainty and insecurity within the working population and their contribution to the GDP.

There is another side of the argument. Informalisation does not necessarily mean impoverishment and exploitation. According to Hart (2006), the label 'informal' could have both positive and negative connotation. Henley et al. (2006) revealed that informal employment is basically the result of displacement of workers into the insecure labour market as it is the only alternative to unemployment (ILO 2012). This was later refuted by many scholars (e.g., Marjit and Kar, 2011). In a dual economy framework, it is argued that workers can work either in the formal or informal sector and can freely move from one to another and the sector can expand. There are also views that the choice of working in the informal sector is voluntary. This is because workers prefer not to be restricted by tight labour regulations such as working hours, superannuation payments and tax laws. As a result, the accurate measurement of informality has become more problematic but important to promote the informal sector as a development strategy. From both perspectives it is important to understand and estimate the contribution of the informal sector.

LABOUR MARKET DYNAMICS IN FIJI

Fiji has passed through various transitions in economic policies and political order and these have resulted into various episodes of growth and development stories during the last 40 years after Independence. The long-term average annual growth rate for Fiji during the last three decades has been around 1.5 percent. In the last decade, the registered growth rate of the economy has not been encouraging, particularly while it is compared with emerging countries in Asia and similar economies in other parts of the world. However, in comparison to other small Pacific Island countries, Fiji is relatively more resource rich. Even though a vast proportion of land area is mountainous and not suitable for cultivation, the coastal regions are considered fertile with vast potential for agriculture.

Most recently, the Fijian economy has grown by more than 4% in 2014 (UNESCAP, 2013), largely due to the government expansionary policies and expansion of some service sectors. Tourism and sugar are the backbone of Fiji's economy which draws directly from the geographical location and natural beauty. The interior land areas in Fiji are rich in forest and mineral resources which require proper management policies in a way that both the resources and the resulting revenues are used in a sustainable way. The exports of fish, gold and other minerals account for a significant contribution to the growth, and remittances from overseas Fijians also play an important role. Despite this geographical advantage, the economic performance of the agricultural

sector has been dismal and has continued to decline for long (Prasad et al., 2012). According to the government source (Fiji Bureau of Statistics (FBOS)), agriculture contribution was 14% to Fiji's GDP in 1989, which declined to around 8% in 2012. The performance of these sectors largely dictates the level of employment in the economy.

The relatively poor economic growth during the last three decades has limited the opportunities for productive employment in the economy. The 2007 Census of Housing and Employment report provides the labor market picture and how it has changed from 1996 to 2007. The labor force or the economically active number of people has grown from 1996 to 2007 by 9.8% (see Table 1). As seen in Table 2, however, the labor force participation rate went down from 59.4% in 1996 to 55% in 2007. This is when population growth of the country has been less than one percent. More importantly, the employment dropped by 6.9 percent points from 57.2% in 1996 to 50.3% in 2007. Poor economic growth, largely explained by substantial drop in agriculture and manufacturing, must at least be partly responsible for this.

While the lack of economic opportunities could explain a drop in employment rate, other social transformations taking place slowly might also be contributing to the process now visible. Fiji has a highly traditional form of living with deep-seated cultural values. The communities live in rural areas and their dependence on subsistence played a very important role of survival for the common people and to keep the severity of poverty in Fiji at the lower level. However, the extent of subsistence living has declined in recent years due to the availability of market goods. This decline is reflected in the 2008/09 HIES data. It shows that subsistence income declined between 2002 and 2009 in all quintiles except for the bottom quintile.³ The drop of subsistence employment could be the result of gradual decline in agriculture and traditional communal living.

TABLE 1: Labor force status of population ages 15 and over, 1996 and 2007

	2007	1996	Difference (in %)
Population aged 15 and over	594,150	500,913	18.6%
I. Economically active (or in Labor Force)	326,988	297,770	9.8%
A. Employed	298,974	286,646	4.3%
Money Income	252,399	219,314	15.1%
No money income (subsistence)	46,575	67,332	-30.8%
B. Unemployed	28,014	11,214	149.8%
II. Not economically active	267,162	203,143	31.5%
A. Fulltime home Worker	131,957	106,686	23.7%
B. Fulltime Student	63,262	56,051	12.9%
C. Retired	19,815	9,695	104.4%
D. Disabled	5,888	3,117	88.9%
E. Not Looking	25,707	5,473	369.7%
F. Others	20,533	22,121	-7.2%

Source: Author's calculations and the 2007 Census of Population and Housing using the ICLS definition of employment and unemployment

Under the categorization used by ISIC, it is assumed that those who engaged in subsistence types of work are already classified as 'employed'. In the pool of employed, there are those that engage in both paid and subsistence work. On the other hand, those that are not economically active or are outside the labor force increased by 31.5% in the period 1996 to 2007. Its share to total population likewise grew by 4.4%. Interestingly, the number of people who are not looking for work or have given up has risen dramatically by 369.7%.⁴ This reflects findings of the ADB report (2012) regarding weak linkages between education and the labor market. Apart from this group, the number of retirees has increased more than a hundred percent (104.4%). These forces definitely put pressure on unemployment and the informal sector.

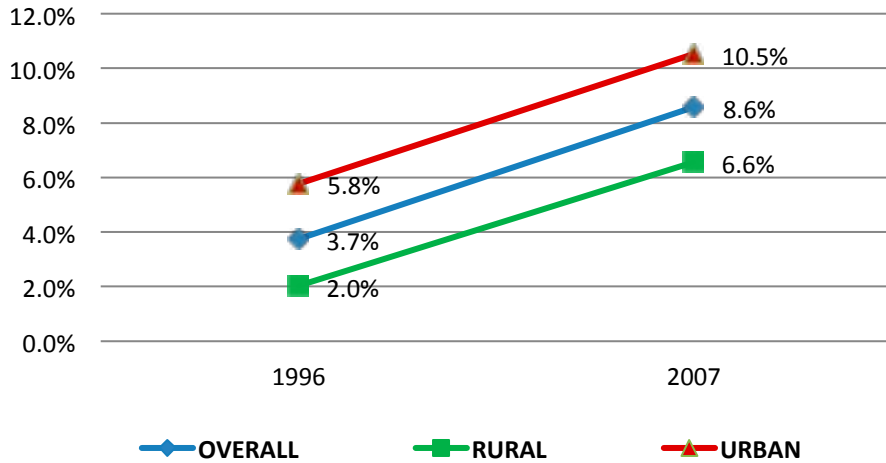
TABLE 2: *Percentage to total population aged 15 & over*

	2007	1996	diff (% point)
Population aged 15 and over	100.0%	100%	-
I. Economically active (or in Labour Force)	55.0%	59.4%	(4.4)
A. Employed	50.3%	57.2%	(6.9)
Money Income	42.5%	43.8%	(1.3)
No money income (subsistence)	7.8%	13.4%	(5.6)
B. Unemployed	4.7%	2.2%	2.5
			-
II. Not economically active	45.0%	40.6%	4.4
A. Fulltime home Worker	22.2%	21.3%	0.9
B. Fulltime Student	10.6%	11.2%	(0.5)
C. Retired	3.3%	1.9%	1.4
D. Disabled	1.0%	0.6%	0.4
E. Not Looking	4.3%	1.1%	3.2
F. Others	3.5%	4.4%	(1.0)

Source: Author's calculations and the 2007 Census of Population and Housing using the ICLS definition of employment and unemployment

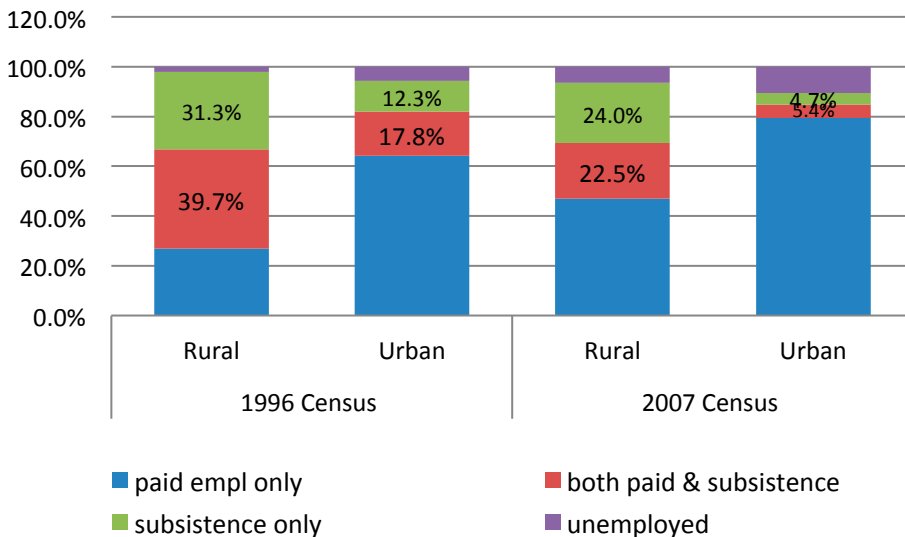
The unemployment rate is further broken down by location to have a glimpse of the disparities between the two areas (see Figure 1). It can be seen that urban unemployment is consistently greater than overall unemployment which has gone up in 2007 to 10.5% from 5.8% in 1996. The rural areas, meanwhile, have relatively lower unemployment rates, although the rates show the similar upward trend from 2% to 6.6% between 1996 and 2007. According to the definition, the unemployed people were without work, available for work, and had been actively looking for work or in other words had taken steps to seek employment. Moreover, Figure 2 shows that the number of people on subsistence only (rural and urban areas alike) had decreased in the period 1996 to 2007. The same is observed for those relying on both sources of income. For the urban areas this category of earners declined from 17.8% in 1996 to 5.4% in 2007, which is still substantially a high rate. It is interesting to note that there are also people engaged in subsistence activities but are actively looking for paid employment – a more secure alternative. The 2007 Census report provided another set of unemployment estimates by adding subsistence workers that want to earn cash income from the ranks of employed (see Figure 3).

FIGURE 1: Unemployment rate by Location, 1996 and 2007

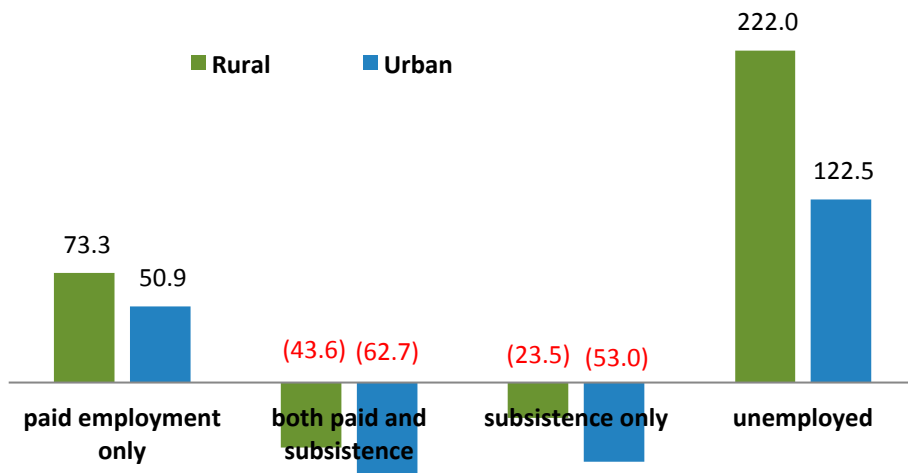


Source: 2007 Census of Population and Housing

FIGURE 2: Employment and unemployment rate (in %), by geographic location



Source: 2007 Census of Population and Housing

FIGURE 3: Percent change in employed and unemployed from 1996 to 2007

Source: 2007 Census of Population and Housing

TABLE 3: Labour supply and demand in Fiji 2002 – 2007

LABOUR SUPPLY AND DEMAND		CATEGORY	AVERAGE ANNUAL (2002-2007)	
			2002	2002-2007
Supply	New Entrants	School Leavers	14,500	75,500
		Belated Entrants	600	3,000
		Laid off workers	2,400	12,000
		Never attended school	200	1,000
		Total supply	17,700	88,500
Demand	Employment opportunities (formal sector)	Replacements for emigrants	2,070	11,350
		Replacements for attrition	2,900	14,500
	Employment requirements (informal sector)	New jobs created (@2.6% GDP per annum)	4,000	20,000
		Total Demand	8,970	44,950
		Total required	8,730	43,650

Source: Ministry of Education

As per the estimated unemployment rate has been on the rise during the last decade or so. While on the one hand, the rate of labour inflow into the formal sector job market is rising because of decline in the subsistence living, the demand for such jobs has not grown at the same rate. It is noted that over the past few years, overall employment (formal employment) has not been expanding. From 2002 to 2007, total new entrants to the labour market were 88,500, of which, only 50.7 percent (i.e., 44,950 individuals) could find employment in the formal sectors. This leaves 49.3 percent (i.e., 43,650 individuals) to be seeking jobs in the informal sector. Since employment in the formal sector has not been growing, the only way to create jobs or to absorb

labour is to expand the informal sector. This indirectly suggests that the unemployment rate could have been brought down, had the informal sector grown. But, it has gone up in reality because the informal sector could not absorb them. In the next section we examine the level of informal employment and the factors that influence them.

SIZE OF INFORMALITY IN FIJI

If one is interested to know the size of the informal sector, there is a need to re-estimate its contribution. Fiji Bureau of Statistics (FBOS), the compiler of national accounts, uses the general definition as in SNA 1993 to measure the informal sectors in Fiji. The GDP (2005 as base year) has been compiled based on SNA 1993. FBOS uses labour-input method to compute the informal sector contribution for the following: 1) manufacturing; 2) construction; 3) wholesale & retail trade; 4) hotels & restaurants; 5) transport, storage & communication; 6) real estate & business services and other community, and 7) social & personal service activities. The main data used is the informal employment, drawn from Employment and Unemployment Survey (EUS) for the period 2004-2005. The current definition of informality, however, cannot capture the actual size (see for instance ILO 2012 for definitions of informality). The individuals who did not contribute to the Fiji National Provident Fund (FNPF), were not registered as a business venture or did not pay a license to operate their business would come under the informal sector in the country.⁵ This does not capture the full size of informal sector as per the international definition. There are a couple of problems with this definition. *First*, the workers that are contributing to the FNPF could be hired on temporary and casual basis and they should come under the informal sector. *Second*, any establishment which is registered or pays license fees can be informal as well. *Third*, a larger section of agriculture and farming takes place for self-consumption and is undertaken by the informal labour. Even if, farmers produce for the market, they do not maintain accounts, pay taxes or contribute to the FNPF funds. Therefore, they should be part of informal sector. FBOS calculates the macro aggregates for the relevant sectors (gross output, intermediate consumption, value added) per employee for employment size group 1-4. This is then multiplied by the informal labour for the sector concerned to obtain the informal value addition for the sectors. The employment size with the group 1-4 refers to registered establishments having less than five workers. The choice of employment size 1-4 for their contribution in the informal sector has been arbitrary and does not distinguish between household and hired labour. This would be a problem especially if units with 5 or more workers are largely employing household workers, then the workers should be classified as informal workers. It should be based on either industrial laws or number of hired labour. Moreover, any worker hired by an establishment should be paid according to their minimum wage. But, usually it is seen that the establishments with less than five hired workers cannot pay the minimum wage throughout a single year because the units are so small to carry out production on a continuous basis. Then, such establishments should come under the informal sector. This is not clear from the existing method of calculation. In the case of Fiji, the residual methods of adjustment are practised, as suggested by ILO (2012).

The problem with the above-mentioned measurement is that it does not account for other measures of informality - employment and social securities. There could be also establishments that are registered and contributing to the FNPF funds, but do hold other characteristics of informality -

such as non-accounts maintenance, multiple activities of employees, non-tax payees or even non-registered for tax purposes and non-fulfilment of the minimum labour requirements. However, Fiji's tax laws have been made stringent, which makes non-compliance nearly impossible, particularly in urban areas. In the economy, FNPF is compulsory now for all employees after the removal of the 12 day rule and there is a voluntary membership scheme.⁶ All major businesses need to be registered with the business licenses obtained from the respective municipalities. Simply using business registration and FNPF as measures to decide informality cannot provide a correct estimate, and thus may lead to the understated informal sector size. Hence, there is a need for an alternative and a more accurate estimation method to ascertain the changes in this sector. However, a logical argument would obviously lead to a conclusion that the informal economy in Fiji has declined significantly.

ALTERNATIVE METHODS SUGGESTED

Given the dearth of data, it is not an easy task to re-estimate the contribution of the informal sector as raw statistics particularly on employment, wages and productivity are required. Statistics on productivity per worker across employment size in Fiji are not available. The only statistics available for estimates were the labour force data (from employment and unemployment survey) and mean wages and salaries.

It is noted that the terms 'unorganised' or 'informal' are often used interchangeably, although there is a minor conceptual difference. The current definition of informal sector emerged from the conceptual framework developed by the International Conference of Labour Statisticians (ICLS) guided by the International Labour Office (ILO). The term informal sector was first coined by the ILO in 1972, to denote a wide range of small and unregistered economic activities. Since then, the interest has been mounted to determine what should be universally acceptable.

According to the definitions and classifications provided in the United Nations System of National Accounts (Rev.4) for statistical purposes, the informal sector is regarded as a group of production units which are a part of the household sector as household business establishments or equivalently as unincorporated business entities owned by households. Hence, there is a need to clearly distinguish between household business entities and normal business establishments. Household businesses are production units that do not have separate legal status from their owners and do not keep accounts to differentiate the production activities of the enterprise from that of the owners and separate out the flows of income and capital between the business entities and the owners. It simply means that whatever production or income is generated basically belongs to the owners and the risks associated with the business are also borne by the owners. These business entities may employ family workers and/or other employees on an occasional or casual basis. No one is employed on a continuous basis as workers would ideally be hired on a needs basis. The final output from these businesses could either be consumed or sold to other formal businesses as input in the production process.

Businesses in Fiji need to have licences to operate from their respective municipalities. Additionally, businesses also need to be registered with the tax authority and obtain a tax identification number for value added tax (VAT) and the company taxes. These businesses may

range from large businesses to self-employed persons such as street vendors. So, to distinguish between formal establishment and informal establishment, the nature of business needs to be known. Usually, establishments with lower employment do not operate throughout the year and quite often are not always visible. Such establishments should be treated as informal enterprises, but this characteristic may not be obvious. With regards to this, the ILO defines informal employment as consisting of self-employed or own-account workers (excluding administrative workers, professionals, and technicians), unpaid family workers, and employees working in establishments with less than the critical number of hired workers, excluding paid domestic workers.⁷ Thus for calculating informality in Fiji, the criterion based on the number of employees working in the establishment, while not quite clear, seems to be establishments with less than 5 workers. Fiji Bureau of Statistics classifies such establishments as informal. So to re-estimate Fiji's informal sector contribution, subsistence activity is excluded. This is because of many complex issues surrounding the calculation of subsistence activities.

TABLE 4: *Re-estimation of Informality*

	2005	2006	2007	2008	2009	2010	2011
Informal sector contributions as released by FBOS							
Subsistence value addition (\$000s)	145945.0	146763.1	147420.5	148142.9	148907.6	149730.4	150509.9
Informal value addition (\$000s)	585554.8	573413.5	589183.0	601369.5	593933.3	604318.3	608164.4
Total Informal Sector Contribution - Value (\$000s)	731499.8	720176.6	736603.5	749512.5	742840.9	754048.7	758674.4
Total Informal Sector Contribution as % of GDP	16.9%	16.3%	16.9%	17.0%	17.0%	17.3%	17.1%
Re-estimated Informal Sector Contribution							
Subsistence value addition (\$000s)	145945.0	146763.1	147420.5	148142.9	148907.6	149730.4	150509.9
Informal value addition based on informal labor criterion (\$000s)	702823.1	650391.3	829289.8	825571.6	853251.7	824952.6	803954.9
Informal value addition in formal sector based on number of hours worked criterion (\$000s)	51073.4	50788.0	59542.8	58204.0	58678.0	56207.8	54099.7
Total Informal Sector Contribution - Value (\$000s)	899841.5	847942.4	1036253.1	1031918.5	1060837.2	1030890.8	1008564.6
Total Informal Sector Contribution as % of GDP	20.8%	19.2%	23.7%	23.4%	24.3%	23.6%	22.7%

Source: Author's calculation

The informal sector value addition using the labour criterion was calculated by multiplying the informal labour with the daily mean wages of workers, because informal workers are deemed to be wage earners or self-employed. All industries' daily mean wages were obtained from Fiji Bureau of Statistics. Minimum wages/daily mean wages are used to calculate value addition by sectors or categories. Minimum and daily wages are used for simplicity. The estimation could

have been made using productivity data, but it requires more disaggregated level of information. It is also important to account for informality from the formal sector to calculate the true value of informal sector contribution. In terms of the number of hours worked, those who work for less than 50 percent of the official hours are generally deemed to be working on an informal basis. To calculate the informality in the formal sector, we took the number of wage earners who worked for less than 150 days based on EUS conducted in 2005, which was assumed to have remained the same from 2006 to 2011. This was multiplied with the estimated daily mean wages rate to compute informal value addition in the formal sectors. The final step was to add the subsistence sector value addition given by Fiji Bureau of Statistics with informal value addition based on labour criterion and informal value addition in the formal sector. Then, the informal sector value addition will be as follows:

Informal sector value addition = *Own accounts establishments + establishments hiring 1-4 workers + value addition of casual workers in formal units*

Workers = *regular (formal) + casual workers (informal)*

Casual workers = *workers not contributing FNPF + workers who receive wages less than minimum wages and no formal contract letter + whose employment are not compliance with labour relations + who do not work more 150 days.*

Table 4 shows that the contribution of the informal sector based on suggested methods are higher than that Fiji Bureau of Statistics (FBOS) has calculated (shown in Figure 4). From 2005 to 2011, the informal sector is re-estimated to be around 22.5 percent compared to 16.9 percent reported by FBOS. The highest contribution was in 2009 at 24.3 percent of GDP. Additionally, the informal labour workforce has been on an average around 37.8 percent of total labour force from 2005 to 2011 (Figure 4). This is quite low compared to many countries in Asia, Africa and Latin America (see informality reported in WIEGO 2014). It is important to note that the share has not increased, though these figures are rough estimates.

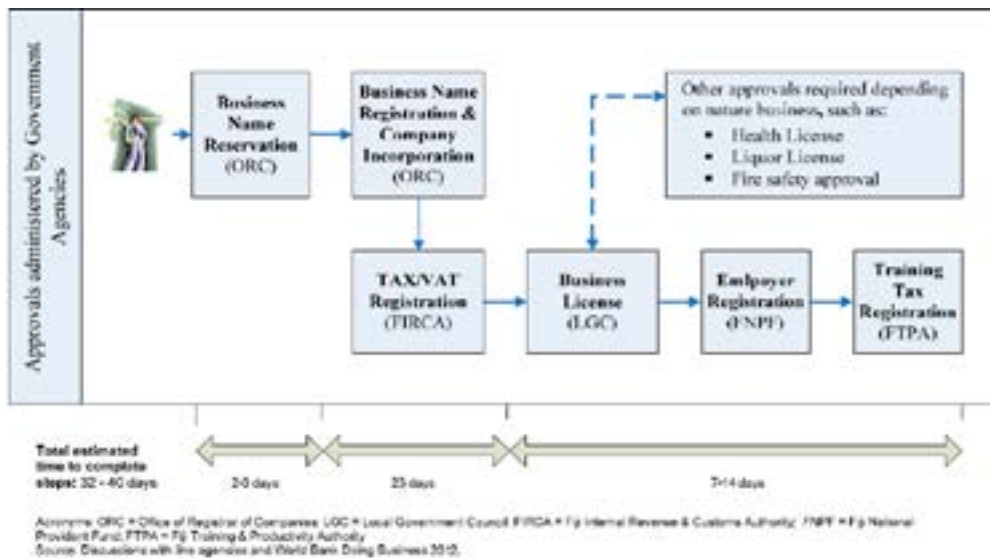
REGULATION AND INFORMALITY

Now the questions that arise are: 1) why cannot the informal sector expand when the unemployment rate has increased and workers have been leaving the subsistence sector and entering into the formal job markets; and 2) why would the unemployment rate be high when there is no unemployment benefit available in Fiji? The obvious answer lies in the extent of rigidities (legal constraints) associated with entering into informal business. We investigate this issue to verify the answer.

At the outset, it should be mentioned that there is no separate legislation for the informal sector and the regulations followed for them are not different from those applied for formal establishments.

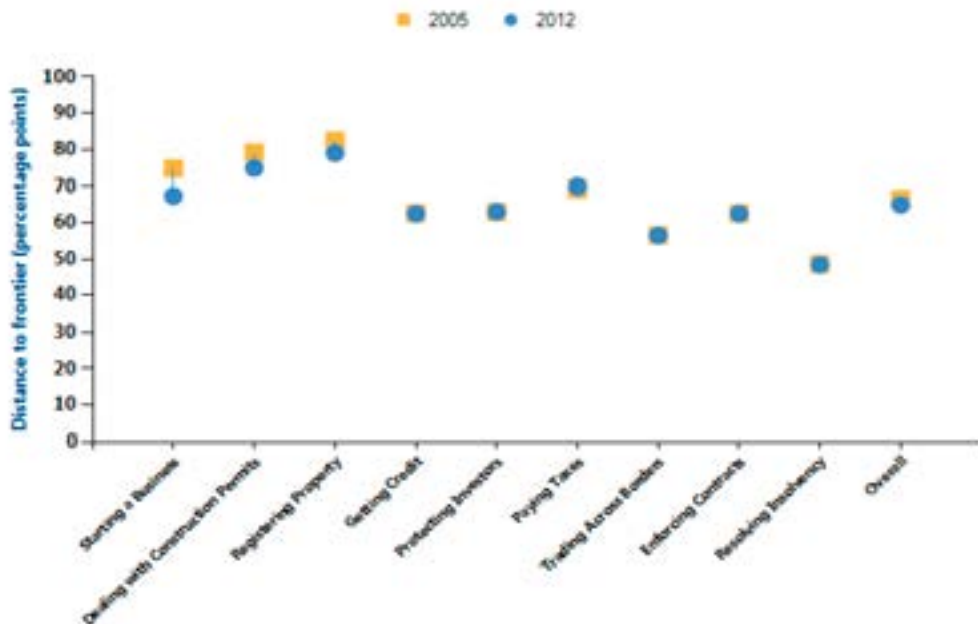
It is quite evident that when regulations governing business start-ups are ‘transparent’ and ‘flexible’, investments increase since costs and requirement processes become clear to follow. Many of Fiji’s regulatory requirements remain difficult for business to comply with, particularly micro and small businesses who have fewer resources to draw on. This is considered to be a critical constraint for private investors in Fiji. The process of entering and registering a business is quite difficult and time consuming (see Figure 5). First, the businesses intending to start operations need to reserve a business name and formally register the business with various government departments such as tax authorities, Registrar of Titles, Lands Department, Fire Authority, Fiji National Provident Fund, Local government (City or Town Councils) or Rural Authority (if the business is not in an urban area) and the Ministry of Labour. Apart from these, businesses have to secure clearance from the Departments of Environment and Health. All of these processes take a long time, ranging from a few days to a few months (World Bank 2014).⁸ All these agencies have their own requirements which the registering business needs to comply with, some of which are extremely difficult for small businesses to fulfil. There are no exceptions or flexibility for small businesses or for those operating as informal entities. These are reflected by how Fiji’s position on ‘Ease of Doing Business’ has declined over the years.

FIGURE 5: Business Entry Process in Fiji



Source: Discussions with line agencies and World Bank Doing Business 2012

FIGURE 6: How far has Fiji come in the areas measured by Doing Business?



NOTE: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each **Doing Business** indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The overall distance to frontier is the average of the distance to frontier in the 9 indicator sets shown in the figure. See the data notes on the original reports for more details on the distance to frontier measure.

Source: Ease of doing business database, World Bank (2013).

Figure 7: How Fiji ranks on Doing Business Indicators



Source: Ease of doing business database, World Bank (2013).

DETERIORATING BUSINESS CONDITIONS

Doing Business database provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium size businesses through their life cycle. As per the overall ranking⁹, Fiji is situated at 60 out of 185 countries in the world and seems to have deteriorated from 2005 to 2013 (see Figure 6). The rank of starting business is 138 in 2013 and deteriorated from 120 in 2012. According to the report, starting a business in Fiji requires 11 procedures, takes 58 days and costs 24.0% of income per capita. Cumbersome processes and high transaction costs raises the risk to access to credit as well as hinders their ability to settle contract disputes through the legal system. The existing regulations currently require physical visits to more than five different agencies and takes between one to two months to complete – well above international best practice of one day (ADB, 2012; World Bank, 2014).

A brief review of a couple of licenses, conducted by ADB (2012) suggests that there are duplications and inconsistency with good practice principles. The general business license which applies to all businesses appears to be particularly problematic in this regard. There has also been a recent trend to introduce new licenses with limited consultation. Fiji made starting a business more difficult in 2012 by adding a requirement to obtain a tax identification number when registering a new company which is a precondition for obtaining a National Fire Authority certificate and a letter of compliance from the Ministry of Labor in 2013. Now an additional process (as of 2014) requires real estate owners (prospective business sites) to seek permission for any letting agreements, where applications of restrictions are fairly arbitrary opening up room for more corruption (costs) and bureaucratic delays.

Now complying with building regulations is excessively costly in time and money causing many builders to opt out, particularly smaller ones. Applicants may even pay bribes to obtain certificates of inspections or simply build illegally leading to hazardous construction that put public safety at risk. Globally, Fiji stands at 82 on the ease of dealing with construction permits in 2013 which has deteriorated from 71 in 2012. In 2009, the City Council adopted new regulations that added three new pre-approval procedures related to health, fire safety, and water and sewage connections. Obtaining a construction permit became more expensive from 2013 adding a fee for the Fire Department clearance.

Producers intending to produce at small-scale cannot easily absorb such costs. Moreover, getting electricity requires 4 procedures that may take 81 days and incur significant cost. Globally, Fiji stands at 75 in the ranking on the ease of getting electricity, while Samoa stands on 20 in 2014. Though Fiji has reliable sources of electricity, it is not easy to access as compared to regional best practices.

In Fiji property transfer (including land) is too costly or complicated. There are four complicated, costly and time-consuming procedures that Banks require clients to follow before loans could be transacted. It takes 69 days and costs 2.0% of the property value. Fiji stood at 58 in the ranking of 185 economies on the ease of registering property in 2013 while Samoa at 23. The rank of Fiji has deteriorated from 52 in 2012, because Fiji made transferring property more difficult recently

by requiring parties to a property transaction to obtain capital gains tax clearance certificate from the Fiji Revenue and Customs Authority. While registering property has become more complicated, only 10-15% of total land is left for commercial and freehold transactions and the rest is reserved.

Credit information systems enable lenders to understand a potential borrower's financial history (positive or negative) and such valuable information to consider when assessing risks. Fiji ranks at 70 and has deteriorated recently. On property rights and investor protection Fiji stood at 49 in the ranking in 2013 and which dropped from 46 in 2012.

On average, firms in Fiji make 34 tax payments per year, spend 163 hours per year filing, preparing and engaging in paying taxes, where the total taxes amount to 37.6% of profit as per 2013 data. The regional average shows 34.5% among East and Pacific economies. Fiji now stands at 85 on the ease of paying taxes as against 78 in 2012. While tax rates were reduced from 31% to 18% in 2012, new taxes and duties were introduced. Fiji introduced capital gains tax of 10% and increased stamp duty on transfers from 1.5% to 3% (Ministry of Finance 2012). The value-added tax (VAT) was also been increased from 12.5% to 15% in 2012 (see World Bank 2013 and 2014).

In today's globalized world, making trade between economies easier is increasingly important for businesses. According to data, exporting a standard container of goods requires 10 documentations that take 22 days to complete and costs \$655. Importing the same container of goods requires 10 documentations which takes 23 days and costs \$635. Fiji stands at 111 in the ranking of 185 economies on the ease of trading across borders while Samoa is at 66. Although Fiji made trading easier by opening customer care service centers and improving customs operations in 2011, it still appears to be costly and tends to discourage potential trade.

According to 2013 data, enforcing a contract in Fiji takes 397 days and costs 38.9% of the value of the claim. It requires 34 procedures to be completed. Fiji stands at 67 in the ranking of 185 and has deteriorated from 65 in 2012.

In terms of economic freedom index of The Heritage Foundation, Fiji stands at 99th position with an overall score of around 58.7 out of 100 points (see Table 5). When looking at the indexes for business separately, Fiji is no better than its comparators such as Jamaica and Mauritius, but slightly better than its neighbors like PNG and Tonga. The Employment Relations Promulgation (ERP) introduced in 2007 repealed and replaced six prominent labor laws in Fiji. It is largely compliant with international labor standards, although a number of subsequent decrees have eroded the rights of workers and unions. In addition, some of the labor laws, regulations and procedures, particularly those related to social security payments and the employment terms and conditions including minimum wages and workplace standards are beyond most small businesses in Fiji (ADB, 2012).

TABLE 5: *Economic Freedom Index of Fiji with respect to comparators*

Country Name	World Rank	2014 Score	Change in Yearly Score from 2013	Business Freedom	Labor Freedom	Investment Freedom
Fiji	99	58.7	1.5	64.9	73.1	50
Jamaica	56	66.7	-0.1	84.6	75.6	85
Mauritius	8	76.5	-0.4	74.4	78	85
Papua New Guinea	132	53.9	0.3	57	73.7	35
Samoa	84	61.1	4	73.7	80.3	55
Tonga	104	58.2	2.2	74.6	91.2	35
Trinidad and Tobago	73	62.7	0.4	59.4	76.4	60
Vanuatu	93	59.5	2.9	54.8	56.8	60

Source: *Index of Economic Freedom*, <http://www.heritage.org>

All this information suggests that the existing rules and regulations have not been conducive for the expansion of nascent enterprise on a small scale. If a small economy like Fiji surrounded by huge swaths of ocean wants to deal with its unemployment problems and expand its industrial activities, the focus should strategically shift towards establishment of more small, medium and micro enterprises. This is only possible through providing the right incentives, greater flexibility and separate legislation for the informal sectors.

CONCLUDING REMARKS

Recognition of the informal sector's contribution towards overall economic performance is fast becoming a focus of many economies around the world. According to the official estimate, the informal sector contribution to GDP is around 17% and captures a little less than 39% of total labour forces. While it is understood that estimation problems exist in Fiji as shown by our re-estimated figures, the importance of the informal sector in generating employment should not be underestimated. The calculations indicate that the share of the informal sector contribution as percent of GDP is 5-6 percent higher. It may be recommendable that the Fiji Bureau of Statistics adjust its HIES questionnaire to capture informal activities more accurately. Including worker characteristics such as the number of days worked per year and the types of firm (by size and sector - FSIC) may be needed to improve the estimates. Currently, the survey forms do not capture whether the employees are household workers or hired workers and the size of the firms.

Whatever would be the case, the size of the informal sector has not grown, while the employment rate has declined and the unemployment rate has gone up in the recent years. In order to deal with the unemployment problem and encourage private investment, the informal sector deserves separate attention. More specifically, Fiji needs separate and flexible legislation to accommodate the informal sector and incentive supports to small and informal businesses to reduce their cost of production. This is important in an economy where there is no unemployment benefits and where a weak entrepreneurial culture exists. Incentives need to be provided for promoting entrepreneurship, innovation and healthy competition to integrate the underprivileged with the formal world of business.

ENDNOTES

- ¹ Informal sector (excluding agriculture) in % of total GDP
- ² Country groupings: (i) Latin America: Argentina, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Uruguay, Venezuela, (ii) Asia: China, India, Indonesia, Pakistan, Sri Lanka, Thailand, (iii) Africa: Botswana, Cameroon, Egypt, Ethiopia, Ghana, Kenya, Malawi, South Africa, Tanzania, Zambia, Zimbabwe.
- ³ Narsey (2012) points out that subsistence income “rarely gets the attention it deserves from government’s assistance programs”
- ⁴ The 2007 Census of Population and Housing defines those that fall under “Not Looking” as respondents that have given up looking for work since they believe that work suitable for them is not available.
- ⁵ Fiji National Provident Fund is the only superannuation scheme in Fiji where both the employees and employers contribute 8 percent and 10% respectively.
- ⁶ FNPF has introduced a voluntary scheme for self-employed persons. Workers engaged in production for their own use with surplus being sold in the markets can join and contribute towards FNPF. The removal of 12 day rule means that even if workers are employed for one day (i.e. on casual basis) the employer must deduct FNPF contribution of 8.0 percent and contribute another 8.0 percent from their side into the workers FNPF account. It should be noted that even though FNPF is compulsory, many businesses including registered formal business do not comply with this regulation and do not contribute their share of FNPF for their employees.
- ⁷ For example 5 hired workers in the case of Indian subcontinent.
- ⁸ Ease of Doing Business index has worsened in the last 12 months. Many of these indicators are at levels worse than those of countries such as Nigeria.
- ⁹ The rank is given by looking at the ease of doing business index - starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (Doing Business database, 2013).

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