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The Panoramic Study of the Informal Economy in Jordan

Amman-Jordan
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يتحمل المؤلف كامل المسؤولية القانونية عن محتوى مصنفه ولا يعبر
هذا المصنف عن رأي دائرة المكتبة الوطنية أو أي جهة حكومية أخرى.

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Preface

The concept of informal economy, which is also referred to as gray/shadow economy, unorganized economy, hidden economy, and underground economy, is a phenomenon which remains to be an important and ambiguous part, not only for developing and transitional countries, but also for developed countries, for many of which this concept is of limited relevance. In the past few years, a renewed interest in the informal economy phenomenon worldwide has appeared. In part, this stems from the fact that the informal economy has not only grown, but also emerged in new guises and in unexpected places. It represents a significant, but largely over-looked, share of the global economy and workforce, a fact that has become more apparent in the recent global downturn. That renewed interest in the informal economy also stems from the recognition of the links between informality, growth, poverty and inequality.

This study comes in as a second step that follows producing the diagnostic study “The Informal economy in the Jordanian Economy” which was concluded as part of the collaboration work between the Ministry of Planning, Economic and Social Council and the UNDP. The study measures the informal economy in the Jordanian economy based on the Jordan Labor Market Panel Survey 2010. The study indicates that the size of the informal economy stand at 44 percent as well as it showcases the main activities that have a large concentration of informality.

The diagnostic study was able to distinguish between five types of employment, namely: (i) government employment, (ii) formal private wage worker which includes wage and salary employment with either a legal employment contract or a social insurance coverage in either private sector or state owned enterprises, (iii) informal private wage work which includes wage and salary work in the private sector with neither a contract nor social insurance coverage, (iv) employers and self employed individuals in the private sector (v) and finally unpaid family workers in the private sector. Based on that, the last three mentioned forms of employment are considered to be the informal employment.

The diagnostic study was able to measure the size of the informal sector in Jordan as well as it showcased the different methodologies and approaches of informal employment measurement. It gave the main activities that employ the largest numbers of informal employment in the Jordanian economy, therefore the main objective of the panoramic study is to provide a qualitative dimension to informality in Jordan and elaborate on the factors for the existence of the informal sector and the result of this sector on; unemployment (male and female), the relation of informality with SMEs and it will concentrate on both youth and women factors. Additionally, the study will shed light on the relationship between poverty/poor people and the informal sector.

This study aims to serve different goals as follows: (i) Providing a qualitative dimension to informality in Jordan, (ii) Defining the factors that drive and motivate the informal economy, (iii) Defining whom from the various segments of society are most affected by informality (iv) Focusing on the relation between informality and both youth and women, (v) Testing the links and relations between informality and SMEs operation, (vi) Showing which sectors are most effected by informality, how and why, (viii) Showcasing the regions in Jordan that demonstrate high rates of informality.

The panoramic study methodology was based on three main approaches; first the study will link the main findings of the diagnostic study with different statistics and surveys available for Jordan such as; the Establishment Census, Employment and Unemployment Survey, the National Accounts and the Social Accounting Matrix. The second approach is conducting focus groups to cover issues of region and informality, youth and informality and women and informality. The focus groups included different people who work informally in different fields from various ages with special emphasis on youth and women. Finally the third approach is conducting a comprehensive research that includes interviewing specialists from both sides (the government and the private sector/employers), in addition to surveying the existing studies for Jordan and some other countries.

Chapter One

Literature Review

Literature Review

In the past few years, a renewed interest in the informal sector phenomenon worldwide has appeared. In part, this stems from the fact that the informal economy has not only grown, but also emerged in new guises and in unexpected places. It represents a significant, but largely over-looked, share of the global economy and workforce, a fact that has become more apparent in the recent global downturn. That renewed interest in the informal economy also stems from the recognition of the links between informality, growth, poverty and inequality. In addition, there is a heated debate in this regards; some observers view this economy in positive terms, as a “pool” of entrepreneurial talent or a “cushion” during economic crises. Others view it more problematically, arguing that informal entrepreneurs deliberately avoid regulation and taxation. Still others see the informal economy as a source of livelihood for the working poor. Each of these perspectives is right in regard to specific components or aspects of the informal economy. Contrary to early predictions, the informal economy has continued to grow and has appeared in new forms. Today, it represents a significant share of the global economy and workforce.

The concept of informal economy, which is also referred to as gray/shadow economy, unorganized economy, and underground economy, is a phenomenon which remains to be an important and ambiguous part, not only for developing and transitional countries, but also for developed countries, for many of which this concept is of limited relevance (Husmanns, 2004). W. Arthur Lewis was the first to use the term ‘informal sector’ in his economic development model which was used to describe employment or livelihood generation primarily within the developing world. The above-mentioned term was used to describe a type of employment that was falling outside the modern industrial sector (Lewis, 1958).

However, in order to be able to collect statistics on the informal economy, one needs to have a definition of the informal economy. Nonetheless, such definition as well as the appropriate measurement of informal economy have been a dilemma facing experts and schools of thought that measure and define informality who employed different methodologies towards this end. However, it was emphasized in this regards, that in order to obtain an internationally agreed definition of the informal sector, which was acceptable to labor statisticians as well as national accountants, the informal sector had to be defined in terms of characteristics of the production units (enterprises) in which the activities take place (enterprise approach), rather than in terms of the characteristics of the persons involved or of their jobs (for example, labor approach), (Husmanns, 2004).

The International Labor Conference (ILC) defines informal economy as “all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements” (ILO 2002a). Further, the ILO report on ‘Decent work and the Informal Economy’ defined employment in the informal economy as comprising two components: (i) employment in the informal, and (ii) other forms of informal employment (i.e. informal employment outside the informal sector). (ILO, 2002b).

Furthermore, some define the informal economy as "diversified set of economic activities, enterprises, and workers that are not regulated or protected by the state" (WIEGO, 2012). Others define the informal economy as the economy which "consists of unincorporated household enterprises which differ from formal enterprises in terms of technology, economies of scale, use of labor intensive processes, and virtual absence of well maintained accounts" (Kulshreshtha, 2011). In addition, the Expert Group on Informal Sector Statistics (Delhi Group) concluded that “the definition and measurement of employment in the informal sector need to be complemented with a definition and measurement of informal employment” (CSO/India 2001). It was emphasized that ‘employment in the informal sector’ and ‘informal employment’ are concepts, which refer to different aspects of the ‘informalisation’ of employment and to different targets for policy-making. One of the two concepts cannot replace the other. They are both useful for analytical purposes and, hence, complement each other. However, the two concepts need to be defined and measured in a coherent and consistent manner, so that one can be clearly distinguished from the other. Statistics users and others often tend to confuse the two concepts because they are unaware of the different observation units involved: enterprises on the one hand, and jobs on the other.

Consequently, it can be argued that the definition and measurement(s) of the informal economy are yet to be agreed upon. However, with the progress research it seems that economists are closer today to define and measure the informal economy than they were few decades ago when the concept was still fresh. Although informal economy definition varies, as demonstrated above, the simplest and most agreed upon definition would be; any market-based production of goods and services, whether legal or illegal, that escapes detection in the official estimates of GDP or is not registered into any national measurements. Informality includes both employers and employees. People can be employed informally; definition is not exclusive to unregistered self-employed individuals. Any individual working with any institution without being registered or contracted or covered by any form of social protection is considered to be informally employed; noting that defining and understanding the informal economy is of vital importance for countries as this comprehension has significant implication for any strategy and policy intervention aiming at alleviating poverty and improving well being.

Albeit the fact that, so far, having exact statistics on informality is somewhat difficult and un-attainable in most countries, the existing studies appear to reckon that the size of this economy is expanding. For example, it has been estimated that the informal economy in Asia is accounting for about 30 percent of nonagricultural gross domestic product and making up more than 50 percent of nonagricultural employment (ADB, 2010).

In India it was estimated that the contribution of the informal sector to the total net domestic product (NDP) accounted for over 57 percent of total NDP. The statistics also show that there is considerable variation in the share of the informal sector in various economic activities. For example, the share of the informal sector in agriculture was over 90 percent, compared with less than 6 percent in the activity of electricity, gas & water supply. The shares of informal sector were also high in the activities trade, transport, construction, and manufacturing (Kulshreshtha, 2011).

In Indonesia a country report which was published in 2010 on informality in two main separate provinces found that the average percentage of informality in the two areas was ranging from 37 percent to 27 percent. Further, the sectors that mainly employ informally were; agriculture, accounting, manufacturing, wholesale, retail trade and services. Moreover, the main contributors to informal employment were with weak educational background and poverty, to which is similar to most informal economies around the world. Percentages between males and females working informally was almost the same. In addition, the results of the 2009 Informal Sector Survey (ISS) in both provinces showed that informal employment was an integral part of the labor market, accounting for 81.9 percent and 75.9 percent. These numbers appeared to indicate the size of informality in the country as a whole (ADB, 2010).

In Turkey, the growth of the informal labor market has been deemed inevitable by demand-and supply side factors simultaneously. On the demand side, increasing integration of Turkey into global markets has intensified price competition and the pressures to minimize production costs in the tradable sectors. This has led to a demand-led growth in the informal employment. On the supply side, massive rural-to-urban migration patterns, combined with privatization and declining share of public sector employment, has provided a work force ready to work under the dire conditions of informal sector employment. The informal sector continues to account for a substantial and growing segment of the labor market, as high as 56 percent non-agricultural employment and 36 per cent of non-agricultural wage earners in 2007. The volume of the informal economy in Turkey is predicted to be around 32.1 percent. Turkey's informal phenomena actually is a result of mostly the same issues in other countries; high unemployment in rural areas, rigid tax and labor laws. Turkey however has included awareness and media campaigns as part of the solution to the problem, (Tansel 2000).

Moreover, some sources estimate the share of informal employment in total employment in some countries in South Asia and Sub-Saharan Africa to be as high as 90 percent. Further, although comparable estimates are not available for developed countries, evidence suggests that non-standard jobs and self-employment represent a sizeable and growing share of total employment in Western Europe and North America; standing at more than 25 percent (WIEGO, 2012).

In the Arab world, a detailed Lebanese study was conducted on the informal economy in 2010. The study goes into all specifics of the informal economy in Lebanon. It actually depicts reasons behind an overgrowing informal sector in the economy. The study shows that one of the main reasons for informality in Lebanon is the political unrest and the continuous wars that overtook the country. Similar to other informal economies around the world, Lebanon faces the paradox of informality. On the one hand it can be assumed that informality in Lebanon has facilitated the economic downfall especially during the various phases of unrest and turmoil, and on the other hand it can be assumed that it assisted the country in attempting to reconstruct its economy after those tough periods. The aforementioned study shows that the Lebanese informal economy can include a large component of remittances which is considered to be of the higher remittances in the world. Another major contributor to informality in Lebanon is corruption; the fathomless levels of corruption in the country comprise a serious restraint to sustainable development and an obstacle to the investment opportunities which do not wish to adopt bribery practices, hence creating an open window for working informally. A significant number of the Lebanese workforce works and functions in the informal sector according to the ILO, 61 percent of Lebanese workers work informally, the ILO envisions that self-employment in Lebanon is the major contributor to informality in the country. The large issue of the Palestinian refugee camps in Lebanon is another component of increased informal employment in Lebanon. The refugees work and contribute to the informal economy and are a competition to low paying informal jobs as well. The study contributes another component of informality to illegal work in Lebanon and has considered it to be another important factor of it. Illegal activities include; money-laundering and drug trafficking along with smuggling, and prostitution. (Rossis, 2011).

Another Arab complex economy characterized with different deficiencies is the Egyptian economy. According to this definition some estimates indicate that the informal sector in Egypt includes about 82 percent of the small and micro-enterprises or 70 percent if we exclude the activities conducted outside establishments. Egypt's informal economy, or all unlicensed and unregistered capital and real estate, constitutes at least 34 percent of GDP. The informal economy in Egypt is comprised of millions of Egyptians who have decided to operate outside the realm of official bureaucratic formal economy. Similar to many countries, the primary reason for Egypt's unofficial enterprises' lack of interest in entering the formal economy is the weakness of legal

and institutional framework governing enterprises. According to the study, the exaggerated taxation system has been another major component leading to the large percentages of Egyptian informal sector. The study indicates that both males and females share working informally closely and no gender is characterized in this economy more.

It is envisioned that the biggest solution to informality in Egypt would be the structuring and developing of the micro-finance industry. Most of the informality in Egypt is in the micro-finance corporations and the main problems faced include; high cost of market entry, the high cost of maintaining the formal nature due to the high cost of adhering to the tax, insurance and labor laws. Solutions to such obstacles are part of the reform needed in Egypt in order to formalize the informal sector. In Egypt's case, formalizing the informal sector is a major component of poverty alleviation initiatives that donor agencies and the Egyptian government are working on, (Refaat, 2010).

Finally, it is estimated that the informal economy around the world is worth about \$10 trillion a year". "That's an astounding figure because what it means, basically, is that if the informal economy was combined in one country, it would be the second-largest economy on Earth, rivaling the United States economy." (Neuwirth. 2010).

Therefore, after reviewing different examples of informality in different countries, it is important to add the example of studies that mention Jordan's informal sector. A World Bank study issued in 2011, resulted that the informal sector size varies in the Middle East and particularly in the non-Gulf countries. The estimated the size of the informal sector in the Jordanian economy to be around 20-25 percent. The IMF in its last report "Regional Economic Outlook, Middle East and Central Asia" estimated the size of the informal sector in the Jordanian economy at 26 percent.

As for the reasons for informality, the existing studies argue that some these reasons are country-specific; thus they vary from country to another and others are similar in all economies and sectors around the world. The reasons cited for the growth of the informal economy during the last decades, often interrelated and to some extent overlapping. These can be summed up as follows:

Limited absorption of surplus labor: the limited capacity of informal agriculture activities and the formal economy to absorb surplus labor, together with increasing numbers of job seekers, has boosted the size of the informal economy. In countries with high rates of population growth or urbanization, the informal economy tends to absorb most of the growing labor force in the urban areas when the manufacturing industry and off-farm activities in general do not grow at the same pace.

Barriers of entry into the formal economy: excessive costs and government regulations as well as corruption in areas such as business start-up, granting of business permits and land titles, according to scholars such as Hernando de Soto (a renowned Peruvian development economist), have forced people to remain informal.

Weak institutions and redundancies: this includes (i) weak capability of public institutions to provide education, training and infrastructure as well as other incentives for structural reforms has contributed to the growth of the informal economy, and (ii) structural adjustment programs during the eighties and nineties have fuelled the growth of the informal economy in developing countries. The disappearance of public sector jobs and the closure of uncompetitive businesses have forced many laid-off workers to find other ways to survive.

Capital is favored over labor: global integration privileges companies who can move easily and quickly across borders to the disadvantage of workers. The globalization of the world economy as well as global trade and investment patterns thus tends to privilege capital and disadvantage labor, especially lower-skilled workers that cannot migrate easily or at all.

Demand for low-cost goods and services: the informal economy has been boosted by rural to urban migration in conjunction with the demand for low-cost goods and services from those employed in the formal and informal economies.

Uncommitted or unaware governments: many governments are unaware of the economic contributions of the informal economy and the problems found in it and have therefore found it unnecessary to intervene because of the belief that the informal economy would die out. The informal economy has often been left unattended and has thus had few obstacles for its growth.

Economic hardship and poverty: poor people do not have access to decent jobs and do not have the luxury of looking for a job for a long time, therefore working in the informal sector is a more appropriate decision for them.

More women entering labor markets: there are growing numbers of women that enter the labor markets outside of agriculture. However, although many women own or run micro enterprises, only a small number of women entrepreneurs actually enter the formal economy. In addition, women's participation within the informal economy tends to be even higher when the access and the right to control and own property or land are denied to them. Mainly because of the lack of appropriate mechanisms that would have contributed to the absorption of the labor force into the national economy, the bulk of new employment in recent years in many countries has taken place in the informal economy. Moreover, all segments of the informal workforce – self-employed, casual, sub-contract, temporary and part-time workers and micro entrepreneurs – also appear to be growing.

To conclude, the informal economy can no longer be considered as a temporary phenomenon. Moreover, it is clear that the informal economy has a significant job and income generation potential and that the existence of the informal economy also helps to meet the needs of poor consumers by providing accessible and low-priced goods and services. Therefore, in order to intervene in the best way to stimulate sustainable economic growth and job creation, the informal economy needs to be better understood both by governments and donors.

Chapter Two

The Dynamics of Jordanian Labor Market

The Dynamics of Jordanian Labor Market

Introduction

Despite the fact that Jordan has experienced high economic growth rates in the past decade, it continues to suffer from persistently high unemployment rates, especially among educated youth. In further details, the economy enjoyed an average annual growth rate of 6 percent from 1999 to 2010, nonetheless the unemployment rate has hovered somewhere between 12 and 16 percent during this period.

Unemployment is growing rapidly, in particular, among educated youth whose numbers are growing swiftly due to the rapid expansion of education in Jordan. This pattern of “jobless” growth was exacerbated with the recent slowdown of growth due to the world financial and economic crisis. GDP growth rates in 2009 decelerated markedly to stand at around 3 percent; down from 8.2 percent in 2007. This slowdown appears to have disproportionately affected educated workers who are increasingly finding themselves in informal employment. Formal private sector jobs are growing, but from a very low base and therefore unable to make up for the significant recruitment in public sector hiring that began in the early 1990s.

In this chapter we employ original data set, the Jordan Labor Market Panel Survey of 2010 (JLMPS 2010) to study changes in the structure and evolution of employment in Jordan over the past quarter century. The JLMPS 2010 offers significant advantages over the regular Employment and Unemployment Survey (EUS) conducted quarterly by the Department of Statistics (DOS). Although it is only the first wave of what is to be a longitudinal survey, it contains a number of retrospective questions that allow us to reconstruct entire employment trajectories rather than simply get a snapshot of a single point in time. The main advantage of this approach is that it allows for the examination of flows into various segments of the labor market and not simply stocks over time. Since flows are much more sensitive to changes than stocks, it is a powerful tool to study the developing trends in the labor market.

Economic Growth and Unemployment

Economic growth rates accelerated significantly in Jordan over the second half of the past decade, before slowing significantly during the period 2008-2010 at the heels of the global financial and economic crisis.

GDP growth rates went up from a healthy 4-6 percent in 2000-2003 to an impressive 8-8.5 percent per annum from 2004 to 2007. Despite this tremendous acceleration in the growth rates, unemployment rates, which were over 14 percent in the early part of the decade, crept down slightly to over 12 percent, then increased again to over 14 percent in 2005 before falling slowly to stand around 12 percent at the end of the decade.

This level of responsiveness of the unemployment rate to overall economic growth appears particularly weak given the very healthy growth rates achieved from 2004 to 2007.

While unemployment rate was particularly sluggish in its response to economic growth, the employment to population ratio, which indicates how employment is growing was more responsive, but with a significant lag. While the acceleration in growth occurred between 2003 and 2004, the employment to population ratio rose from around 35 percent to around 38.5 percent only two years later. The 2009 slowdown in growth was not yet reflected much in the employment to population ratio again because of this lagged response.

The contrasting trend in the unemployment rate and the employment to population ratio suggests that the labor force was growing rapidly during the period under consideration and its composition was changing toward groups that tend to have higher unemployment rates, such as educated people. This can be easily ascertained from an examination of the composition of the working age and employed populations by educational attainment. The proportion of illiterates and those who can only read and write in the working age population has declined from about 18 percent to around 12 percent over the decade, at the same time as that of those with basic education has been stable at about 50 percent and the proportions of those with secondary and post-secondary education have either been rising slowly or stable. With contrast, "university graduates" was the one group whose proportion has increased rapidly from about 8 percent to 13 percent of the working age population in only ten years.

The composition of new entrants in Jordan has changed dramatically since the 1960s. In the 1960s, there was a precipitous decline in the proportion of illiterates and a rapid increase in the share of those with basic and secondary education. This rapid progress was stalled somewhat in the 1970s, but the decline in illiterates resumed its fast decline since the 1980s, so that now fewer than 5 percent of new entrants are illiterate. In the 1980s and early 1990s, the improvement in education essentially translated in the rapid growth of the share of those with basic education. However, since the mid 1990s, that share stabilized and the share of those with university degrees took off. The share of those with university degrees rose from 15 percent of new entrants to over 30 percent in less than two decades. The notable increase in the share of university graduates among new entrants is reflected in the share of university graduates among the unemployed, who tend to be young new entrants, and hence a better reflection of the flow into the labor market than the stock of workers. The share of those with the first university degree and above among the unemployed hiked from about 12 percent in 2000 to over 30 percent in 2010.

The inability of the Jordanian economy to absorb the growing number of university graduates is linked to the shifts that were occurring in the structure of employment away from the public sector and in favor of more private sector employment. This is an issue which will be explored in a greater detail below. For now, we can ascertain this fact from Employment and Unemployment Survey data, which tracks the stock of workers over time by sector. The share of the government in total employment fell in the mid 1990s from 38 percent to about 32 percent and then remained at that level thereafter. Even with a fixed proportion of overall government employment and a growing share of educated workers, the probability that a given educated worker will get a government job declines significantly.

The Dynamics of the Labor Market

Public sector employment contributes about a third of total employment in Jordan. Just over 20 percent of employment is in formal private wage work and over 25 percent is in informal private wage work despite significant efforts in recent years to increase the coverage of the social security system. Under 20 percent of employment is in own account work, as employers and self-employed workers and a tiny fraction is in unpaid family work. Female workers in Jordan are more likely to be working for the government and more likely to be in formal wage work than males. They are significantly less likely to be employers and self-employed workers.

JMPLS shows that nearly all government workers (97 percent) have permanent contracts, whereas only 70 percent of formal private sector wage workers are permanent. On another hand, almost all employers/self-employed workers (97 percent) are informal in the sense that they do not have social security coverage, as are all unpaid family workers.

The fluctuations in government employment were mirrored almost perfectly into the second largest component of the Jordanian labor market, namely informal private wage employment. The share of that segment increases whenever that of government jobs declined and vice versa. The share of formal private sector employment rose slowly from a very low base through the 1960s, 1970s and 1980s and accelerated significantly in the 1990s and 2000s; increasing from less than 10 percent of new entrant jobs in 1990 to about 22 percent by 2010.

To assess whether the changing structure of employment is something that only affects new entrants and their pattern of insertion into the labor market or is a deeper change in the structure of employment, we examine the share of each type of job 5 years and 10 years after entry in comparison to what it was at entry. Figures show that most people who got government jobs up to the 1990s got them as their first job and remained in them. Starting in the 1990s, there was significant delay in obtaining government jobs after entry. We can see that from the fact that the proportion of government jobs at entry fell from about 45 percent in the late 1980s to 25 percent in the late 1990s, but many of these new entrants who failed to get such jobs at first got them five and ten years after entry. The recovery in government employment in the 2000s was also pronounced five and ten years after entry.

With regards to informal private wage employment segment, as suggested earlier, the sector rises whenever government employment falls and vice versa, but there appears to be a dynamic of formalization over workers' careers. Although the proportion of informal works rose sharply at entry starting in the late 1980s, five years into workers' careers, it had hardly risen at all and ten years after entry it has even fallen over time. This suggests that the surge in informal employment observed in the late 1980s was in formal private enterprises that eventually registered their workers with the Social Security Corporation.

A closer examination of the trend in formal employment in Jordan in recent years reveals, however, that the growth of permanent formal private jobs stalled in the 2000s and that of jobs with temporary or no contracts accelerated. The share of first jobs that were permanent formal in the private sector stabilized at around 10 percent of all first jobs since the mid 1990s, but the share of temporary formal jobs jumped from around 7 percent to 13 percent in the same period. Essentially Jordan managed to curb the growth of informality by creating more flexible, but also more precarious, forms of formal private employment.

Private Wage Employment

Nearly one third of the private wage employment is in establishments of fewer than 5 workers and just under one half in enterprises of fewer than 10 workers. If non-wage workers are included, the proportion of workers in establishments of fewer than 10 workers rises to 57 percent. Enterprises of more than 100 workers employ about a quarter of total private wage employment; leaving about 30 percent in small and medium enterprises of 10 to 99 workers.

Workers in enterprises of fewer than 5 workers are almost entirely informal (92 percent). This is partly due to the fact that previous social security law exempted enterprises of fewer than five workers from registration for the social insurance coverage. The share of informal workers then drops steadily from 68 percent in the 5-9 category to 10 percent in the 100+ worker category.

Within formal wage work, the proportion of permanent workers hovers between 60 percent and 65 percent for the intermediate size categories (5-9 workers to 50-99 workers), but increases to 77 percent for the 100+ worker category. This suggests that while the largest firms can provide the most stable and protected forms of employment, they still like to maintain a margin of flexibility by either hiring workers informally (10 percent of their employment) or using temporary contractual forms (21 percent). Overall, only 45 percent of private sector wage workers in Jordan are formal and only 31 percent have permanent formal contractual arrangements.

Formal employment in Jordan is associated with the scale of non-wage benefits that is likely to make it attractive to educated workers. Our definition of formal employment is based on the presence of social security coverage, but a question still remains whether it comes with other non-wage benefits, such as various types of paid leaves or medical insurance. We have also distinguished between permanent formal work and other formal work based on the availability of an indefinite duration contract.

Most permanent formal jobs come with either full paid leave (72 percent) or some other kind of paid leave (20 percent). However, other formal employment, which tends to be more precarious is much less likely to be accompanied by paid leave, with up to 24 percent of these jobs not having any kind of leave. As expected, informal jobs, which make up 55 percent of wage and salary jobs in the Jordanian private sector, are most typically not accompanied by paid leaves. Overall, only 36 percent of Jordanian private sector wage workers get full paid leave and up to 44 percent don't get any kind of paid leave.

Characteristics of the Informal Sector

It is evident that the practices of business startup and business licensing are not encouraging to reduce the informal sector size. The results and findings concluded from focus group, with youth, women, people with different occupations in the center, north and south regions and the one on one interviews with experts, civil society representatives, officials, and specialists in the academia showed that individuals who work in the informal sector are unwilling to register their businesses due to various reasons; including, but not limited to, the feeling that the services provided to them by related government institutions as well civil society institutions, such as municipalities and chambers of commerce and industry, do not balance what needs to be paid while registering. Others are completely unaware of the benefits they would get from the social security and from the labor law. This lack of awareness was evident throughout the segments and in all the different regions of the Kingdom. The issue of high taxes enforced on registered establishments kept showing throughout researching for this study. The lack of awareness has generally contributed to increasing the informal sector. Many individuals who operate in the informal sector are not aware that this is an informal sector, they don't know that they should be registered, and if they know about the registration then they don't know where to head or why, others just don't register due to the cost of registering, which is considered to be useless as nothing is given in return to what is being paid.

Further, one of the reasons of the widening informal sector can be due to the lack to the access of finance issue. This issue is divided into more than one component; some citizens are unaware of the whereabouts of the sources of funding, whether the government funds and programs or the national microfinance enterprises. On another hand, there is a feeling of infeasibility, due to the high interest rates, required collaterals, and short grace periods. In addition, some individuals avoid microfinance institutions (MFIs) because the belief that their operations go against Sharia; unaware of the possibility to get funds based on Sharia rules from several MFIs. These issues make the access to finance difficult especially to youth entrepreneurs.

Generally speaking, youth are directed towards informal employment due to different reasons. In the govern- orates, youth referred their lack of finding a decent job in the formal sector to the fact that private sector establishments are few and limited in their specialization. Many of them attributed that their skill or line of education does not match what is offered in the private sector. Others attributed their lack of finding a job due to distance to workplace, lack of reasonable benefits, long working hours and low salaries. Working in the

informal sector gave them the opportunity to work, obtain needed cash and customize their own working environment. Additionally, it was evident that youth not only face problems in finding decent jobs, but also have no faith in the private sector; mainly its job sustainability. They also feel that if they have a specific business idea, they are unable to reach to the right entity that would support and nurture this idea into a business.

On the female front, both the interviews and the focus groups indicated that women are directed to the informal sector due to reasons that in some cases are similar to the youth and in other cases specific to the females themselves. Females, especially married ones with families, find it easier to work from home or informally in order to meet their families' needs and requests. Women with babies are unable to leave them alone and cannot afford the cost of daycare or paying someone to watch over them. This seemed to be a constant obstacle facing females seeking work. Another common issue that in some cases females are not comfortable working in certain environments with long working hours. Others mentioned that their family and traditions still prevent them from getting a job at certain sectors. The lack of part-time jobs in the country was also mentioned. Having part-time jobs with decent working criteria would help increase female employment overall.

Another general aspect that was general amongst focus groups, was that individuals have no trust when it comes to employment initiatives and programs. They additionally, do not trust the government and its facilitations, exemptions and announced programs. There is a common belief that NGOs and current employment programs are not sustainable and therefore are not completely trustworthy. As mentioned above, there is also a lack of trust in the private sector. It is envisioned that working in the private sector is not sustainable, will be faced with different kinds of harassments and is not fair financially.

Interestingly enough, the informal sector is no longer seen as a low skilled sector. Currently additional sectors add on to the informal low skilled sectors. The existing freelance consultancies that now operate in the main cities are to be included in the informal sector. A new caliber of individuals now operate in informal sector including highly educated individuals. Another form of educated people's informality exists in individuals working as IT technicians who operate from their homes. This being said, the addition of skilled individuals working informally shows the extent of needed amendments to the labor laws and market in order to formalize the informal.

Chapter Three

The Dynamics of the Informal Sector

The Dynamics of the Informal Sector

Introduction

This chapter aims at showcasing the reality and the size of the informal sector in Jordan, in addition to its geographic distribution between the Kingdom's governorates. It will also demonstrate the relationships between this sector and SMEs and the legal status of informal establishments and the relation between the informal sector.

Informal employment stood at around 44 percent of the total employment in the Jordanian economy in 2010, whereby the percentage of informal employment in the private sector has reached 55 percent of the total employment in this sector. Furthermore, the percentage of informal employment amongst working males stood at around 23 percent compared with about 15 percent of informal employment amongst working females in 2010.

Certain economic activities employed around 71 percent from the total employment in the informal private sector. These activities were; crafts (30 percent), services and sales (24 percent), and machinery technicians (17percent). By contrast, the percentage of informal employment in higher administrative activities was very modest; standing at merely 0.4 percent from the total informal employment in the private sector in 2010.

On the sectoral level, 30 percent of the informal employment was concentrated in "retail and motor bike and vehicle maintenance", 18.6 percent in manufacturing, 11.7 percent in "transportation and storage", and 11.1 percent in construction. On the other hand, it was found that three sectors and economic activities employed only 0.6 percent from the total informal labor in the private sector; namely "electricity, gas, steam, and air conditioning supply", "water, sewage and waste management" and "promotion and entertainment". In further detail, the wholesale and retail sector and the vehicle maintenance sector were the primary employers of male informal employment (32.4 percent of total males working in the informal private sector), on the other hand the primary sector that employs female informally was medical and social services with a percentage of (17percent) of the total female employment in the private sector. Moreover agriculture, forestry and fishing came in third place composing (16.4percent), followed by the education sector (16.1percent).

Despite the previous percentages, Jordan's informal sector size holds a middle spot if compared with the Arab countries according to the "percentage of labor force not covered by social security from total labor force" criteria. This percentage comes at (67.2 percent) in Jordan, while it skyrocket to (90 percent) in Yemen composing the highest of the Arab countries, with the lowest was registered in Libya; composing (34.5 percent). (Asaad, 2011). As for the "Schneider Index" of estimating the size of the informal sector as a percentage of GDP, the statistics reveal that the aforementioned ratio totaled (20.9 percent) in the Jordanian economy which is at the low ranks between the Arab countries; for instance this ratio stood at (39.2 percent) in Tunisia. (Schneider, 2002).

The relative distribution for informal labor force reflected the nature of population density between rural and urban areas in Jordan; whereby around 83 percent of Jordanian labor are concentrated in the urban areas versus 17 percent, only, in the rural areas. Moreover, it was revealed that 47.5 percent working at the urban areas are informally employed and 28.3 percent are informally employed from the total labor in the rural areas.

The same percentage can be applied on the gender distribution of employment in Jordan, while males compose around 83 percent of the Jordanian labor force, 47.8 percent of them are considered to be working informally compared with 26.7 percent of working females.

The statistics appear to indicate that there are no linkages between the distribution of labor force in Jordan according to the different age groups and the percentage of informal employment amongst each age category. For instance; the age category (55-64 years) composes only 5 percent of the Jordanian work force but of which around 64 percent are informally employed. This is most probably caused by the fact that most of workers in this age group have already left the social security system coverage or other pension systems; i.e. working after retirement. On another hand, informal employment within the age group (25-34 years) amounted to 36.9 percent; noting that this category composes 35.8 percent of the total Jordanian work force.

The striking finding was the low levels of education of the informally employed individuals in the Jordanian labor market; it is estimated that around 72 percent of this segment are of basic education level or lower. Additionally, the majority (81.7 percent) of the informal employment fell under the category of paid workers. The percentage of informal employment from the total workers was higher in the following categories: self-employed workers (98.5 percent), employers (94.6), and unpaid workers (100 percent).

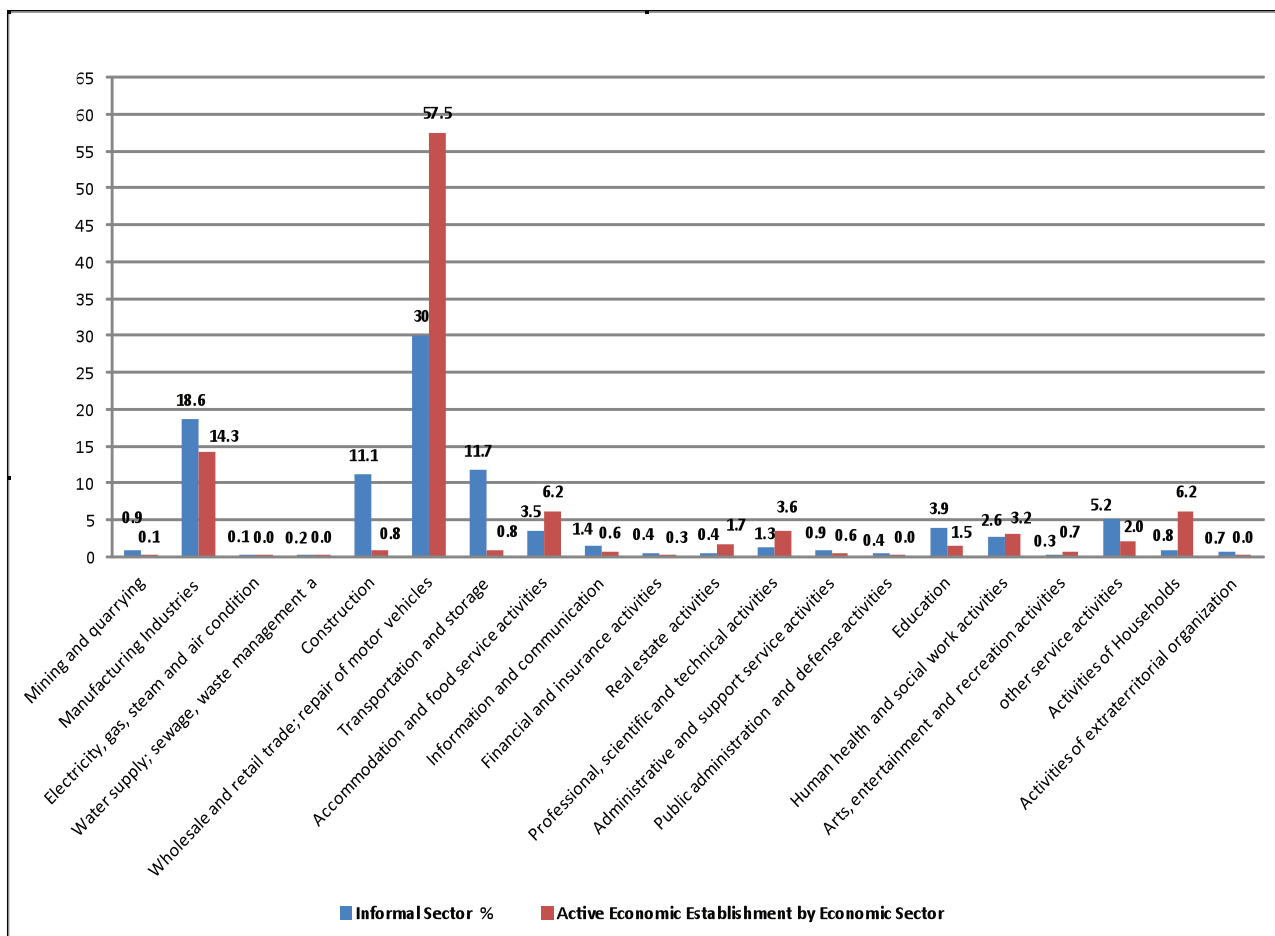
Informal Sector and SMEs

It is noted that there is disparity which exists regarding the participation of the informal sector in the economic activities in the Jordanian economy. This disparity is due in the first degree, to the different nature of the economic activities, their size, and the extent of its contribution in the employment levels and total production.

The activity of "wholesale and retail and vehicle and motor bikes maintenance" comes in the first place, whereby the percentage of its contribution in the informal sector is about (30 percent), followed by manufacturing, "transport and storage", and construction with (18.6percent), (11.7percent), and (11.1percent), respectively (Figure (1)). It can be noticed here that the smaller the establishment in each economic sector (activity), the higher percentage of participation rate in the informal sector. The size of the establishment is referred to by the size of labor in it, the lower the number of workers in the establishment and less the chance of their participation in social security, for example, and accordingly they are classified to be part of the informal sector.

Figure (1)

Distribution of the Informal Sector and Economic Establishment by Economic Activities (%)



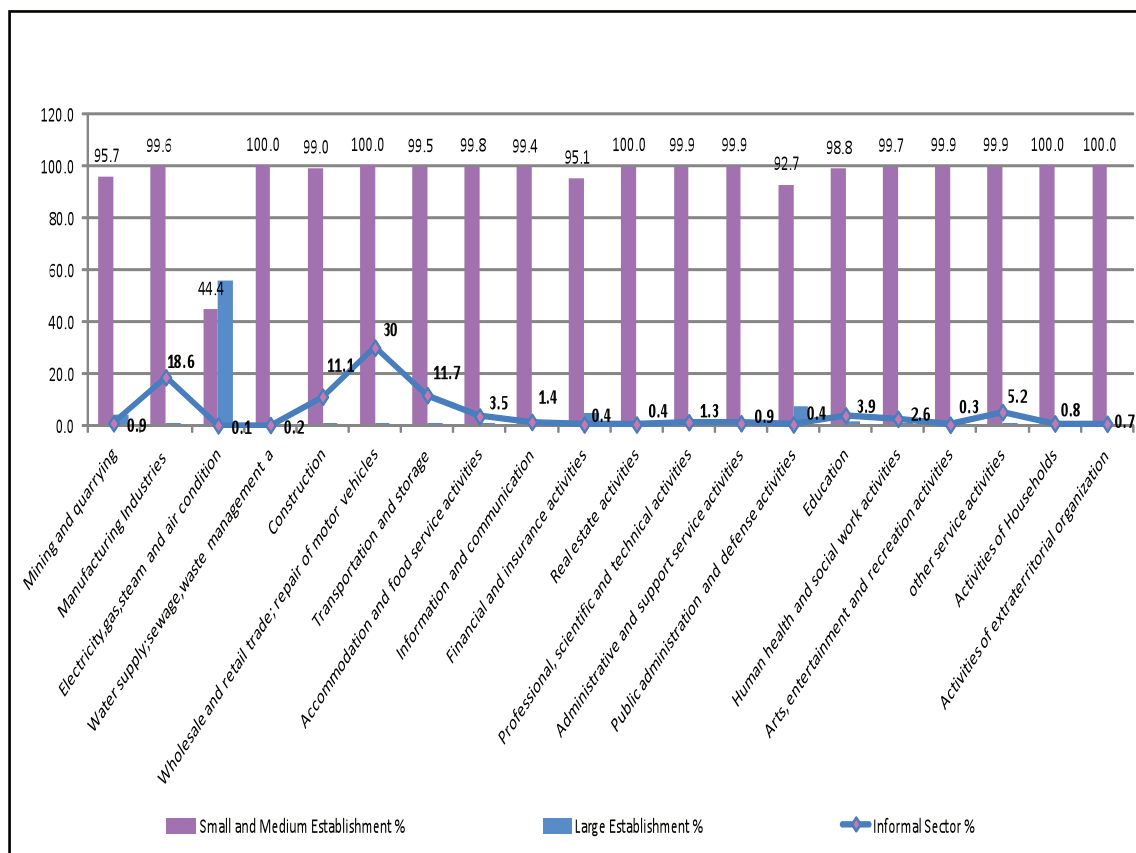
On another hand, the contribution of the informal sector is low in many sectors and economic activities. The lowest participation rates are shown in the following activities: "electricity, gas, steam and air conditioning supply" (0.1 percent), "water, sewage and waste management supply" (0.2 percent), and "arts, promotion and entertainment" (0.3 percent). In consequence, it can be concluded that the percentage of informal sector participation in economic activities is inversely proportional with the concentration ratios in the sector and its market power. The percentages specific to the informal sector participation in economic activities came in to be in agreement, to a large extent, with "the percentages of number of establishments in each activity to the total number of establishments", whereby the percentage of the number of establishments in each activity to the total number of establishments was the highest in: "wholesale and retail and vehicle and motor bike maintenance"; totaling (57.5 percent) which goes in line with the highest percentage in the informal sector for the same activity; standing at (30 percent).

Manufacturing came in second place in relation to percentage of the number of establishments in each activity to the total number of establishments (14.3 percent), in addition it came in second place for the rate of informal sector participation in it (18.6 percent), this can be clarified more by calculating the correlation coefficient between the two mentioned percentages of the 20 economic activities; which was estimated to reached around (0.85).

On another front, the percentage of the participation of the informal sector in economic activities is directly proportional with the percentage of SMEs in these activities. The highest participation rate of the informal sector, which was in "wholesale and retail and vehicle and motor bike maintenance" (30 percent), was accompanied with the highest rate to the number of SMEs to the total of establishments (100 percent). This consistency between the two percentages applies mostly to the rest of the economic activities, whereby the correlation coefficient for the previous percentages reached (0.174), (Figure (2)). These percentages reflect an inability of establishments regarding registering their employees in the social security system and this applies to the rest of the services that these establishments provide to their workers. Many SMEs do not provide social and health insurances to their workers, even if this led to direct violations with the labor and social security laws.

Figure (2)

Distribution of Small Medium and Large Establishment by Economic Activities (%)

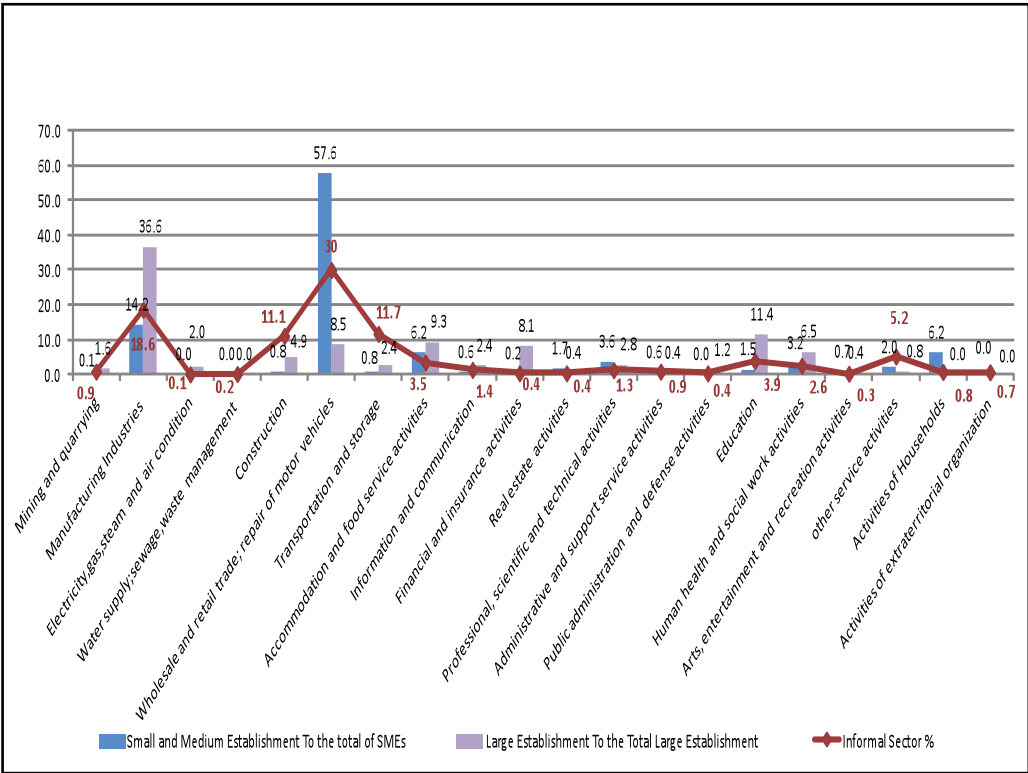


As for the informal sector participation in the establishments in terms of the number of establishments specific to this sector to the total number of establishments in the Jordanian economy, the participation rates varied between SMEs, on the one hand, and large establishments, on the other. SME's informal percentage to the total number of establishments stood at (57.6 percent); the highest in "wholesale and retail and vehicle and motor bike maintenance". With contrast, some economic activities did not have any SMEs such as: "electricity, gas, steam and air conditioning supply", "water, sewage and waste management supply". It is noticed here that the above-mentioned percentage is positively associated with the informal sector participation rate in economic activities; reaching 30 percent.

Further, the percentage of large informal establishments in each economic activity to the total number of establishments in it stood at 36.6 percent, while some activities remained the highest.

Regarding the percentage of large informal establishments in each economic activity to all establishments, it was the highest in manufacturing with a percentage of (36.6 percent). On the other side, some economic activities did not contain large size establishments such as "water, sewage supply", "waste management" and household. Figure (3) shows that the manufacturing sector has a high percentage of informality (18.6 percent) and at the same time had the highest percentage of large size establishments (36.3 percent). This can be explained by the nature of the manufacturing industry whereby its needs of capital, labor and intermediate inputs differ according to the nature of the establishment. For example, some manufacturers need one worker while other kinds need a large number of workers similar to the cement industry.

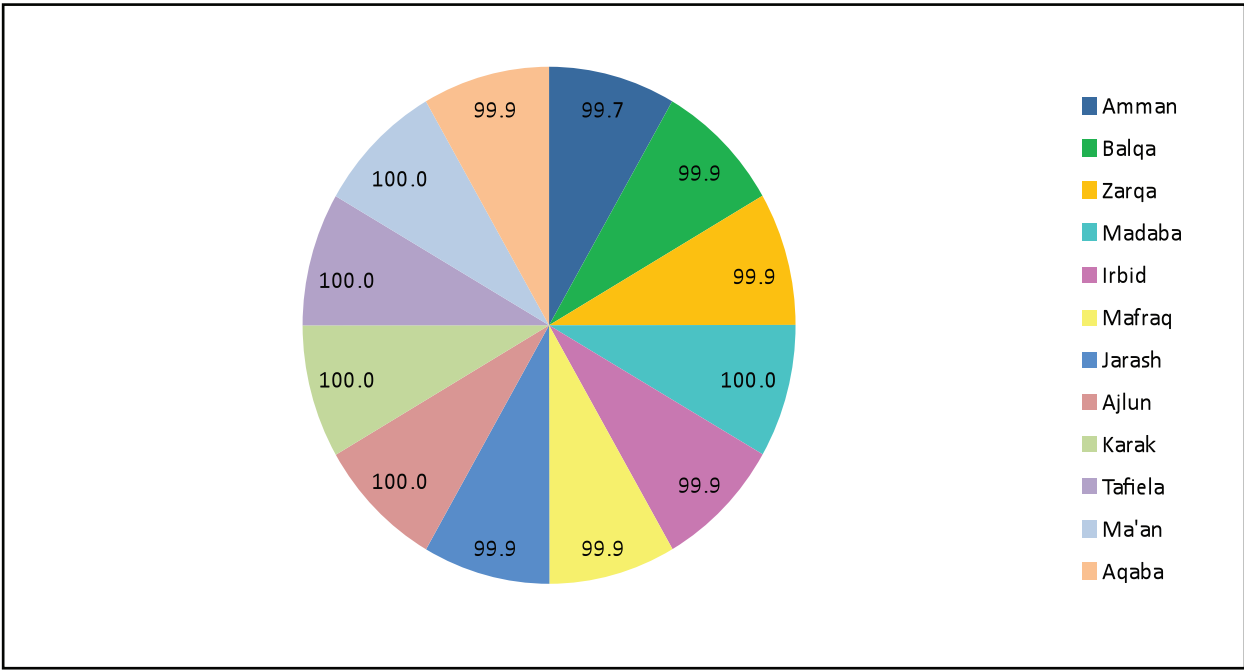
Figure (3)
Distribution of Informal Sector and Small and Medium Establishment by Economic Activities (%)



Informal Sector and Geographic Distribution

The most important characteristic of establishments in Jordan lies in the fact that most of them are SMEs; in 2010 around 99.8 percent of establishments employed less than 250 workers. Further, it is noticed that some governorates such as Madaba, Ajloun, Karak, Ma'an and Tafileh do not have establishments with more than 250 workers, Figure (4).

Figure (4)
Distribution of Economic Establishment by Employees Category and Governorate (%)

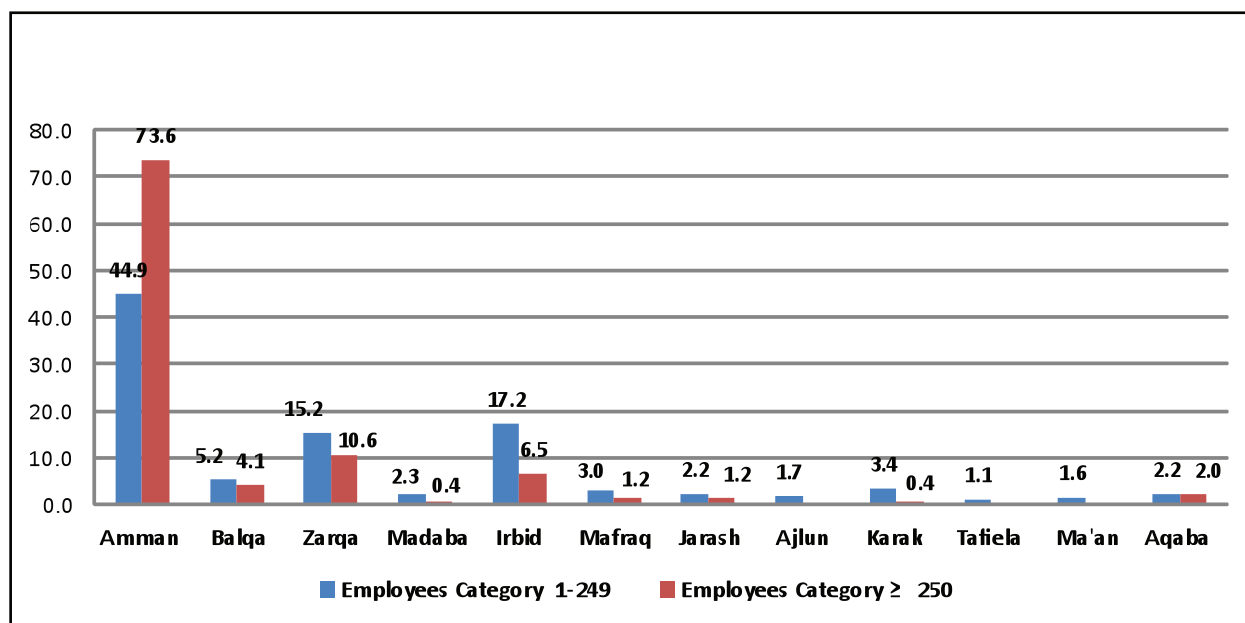


As for the relative distribution of establishments according to work and governorate categories, the capital (Amman) incubates around 45 percent of establishments that employ less than 250 workers and 73.6 percent of establishments that employ 250 workers or more. The Governorate of Irbid comes in second place; hosting 17.2 percent of establishments of less than 250 workers and 6.5 percent of establishments of 250 workers or more, followed by Zarqa Governorate in which the two percentages mentioned above stood at 15.2 percent and 10.6percent, respectively. Additionally, there are three other Governorates; namely Ajloun, Tafileh and Ma'an that do not incubate more than 1.7 percent, 1.1 percent and 1.6 percent of establishments that employ less than 250 workers, respectively. It can be inferred from figure (5) that the middle region of the Kingdom (Amman, Balqa, Zarqa and Madaba Governorates) hosts 67.6 percent of establishments that employ less than

250 workers and 88.7 percent of establishments that employ more than 250 workers. As for the northern region of the Kingdom (Irbid, Mafrq, Jerash and Ajloun Governorates) the mentioned above percentages totaled 24.1 percent and 8.9 percent, accordingly. The same percentages for the southern region of the Kingdom (Karak, Ma'an, Tafileh and Aqaba Governorates) were 8.3 percent and 2.4 percent, respectively. These percentages go hand in hand with size of the economic activity in each region as well as the population density in those regions where their relative distribution according to regions in 2011 in the middle, northern and southern regions stood at 72.8 percent, 27.8 percent and 9.4 percent, consequently.

Figure (5)

Distribution of Economic Establishment by Employees Category and Governorate out of Total Establishment in each Category (%)

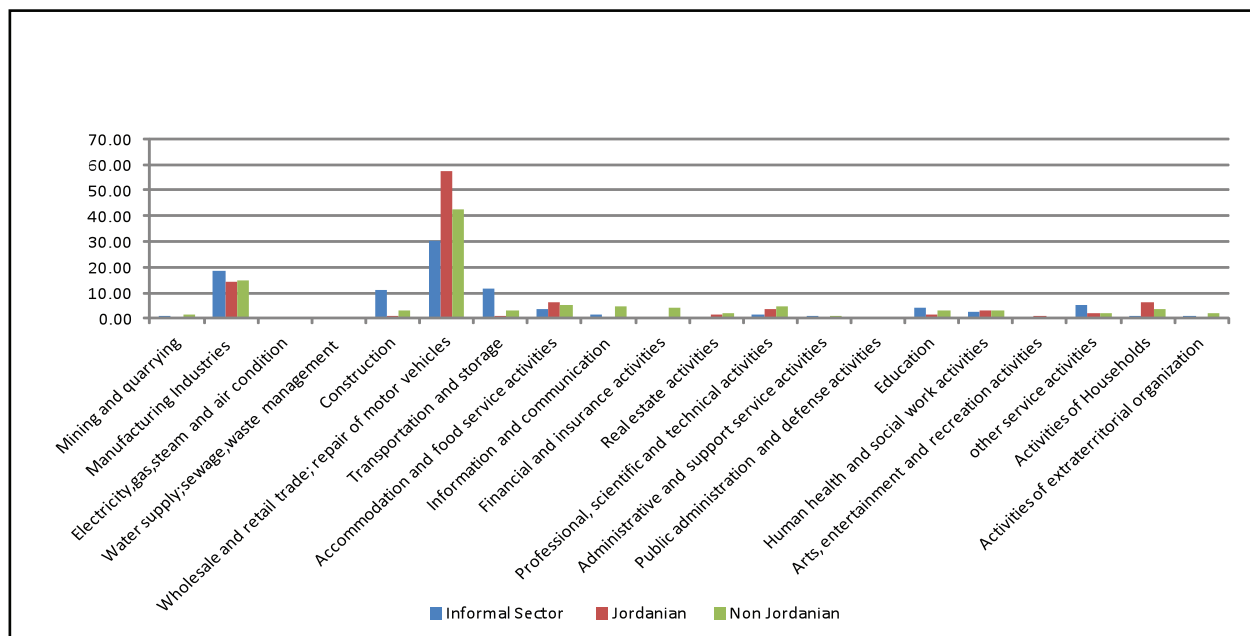


As for the relative distribution of the SMEs in the informal sector according to governorates and economic activity, it was estimated that majority of these establishments was located in Amman and in most economic activities. The percentage of the capital's control over economic activity is characterized with the percentage of the number of establishments to the total establishment count in the Kingdom; ranging between 34 percent in "mining and quarrying" sector and 89 percent in "organizations and foreign agencies activities" sector. Furthermore Zarqa Governorate comes in second place in terms of the number of economic establishments located in it; hosting 20 percent of establishments in "water and sewage supply" sector, 22 percent of "transportation and storage" sector establishments and 5 percent in each of "financial and insurance" and

"public administration and defense" sectors. The Governorate of Irbid takes the third rank in terms of number of informal establishments; the percentage of establishments in this Governorate amounted to 18 percent in the "wholesale and retail and vehicle maintenance activity", 19 percent in the education sector and 19 percent in the manufacturing sector; noting that it did not host any establishments in the specialization of "organizations and foreign agencies activities". Figure (6).

Figure (6)

Distribution of Informal Sector and Small and Medium Establishment by Economic Activities and Nationality of Establishment (%)



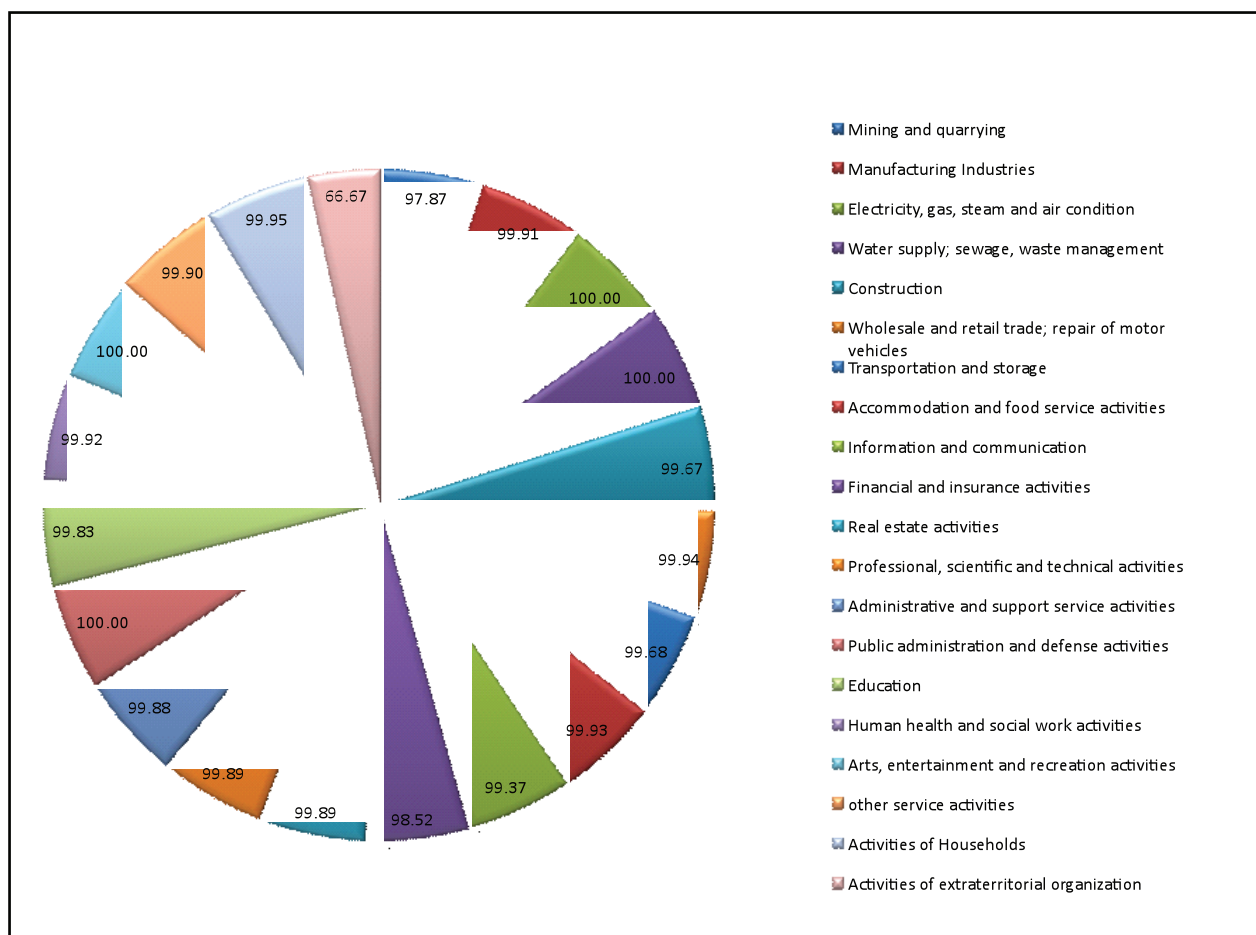
As for the rest of governorates, there are informal sector establishments in very modest and few numbers, for example all of those governorates did not have establishments for the "organizations and foreign agencies activities" sector. Interestingly enough, Mafrq Governorate had 24 percent of the total informal sector establishments in the mining and quarrying activity and this is a relatively high percentage which is probably due to the geographic nature of the Governorate. Other than that, the percentages ranged for the rest of governorates (except Amman, Zarqa, and Irbid) between 0 percent and 11 percent.

Informal Sector and Establishments' Nationality

It can be concluded that most establishments operating in the informal sector are Jordanian establishments and very few actually are non-Jordanian. Moreover, there are some differences in the relative distribution for the informal sector's SMEs according to economic activity and nationality of the establishments; the nationality of the establishments in some economic activities were completely Jordanian; namely "gas and electricity supply", "water and sewage supply", "public administration and defense" and "arts, promotion and entertainment" activities. On another hand, the "organizations and foreign agencies" sector composed 33.3 percent of non-Jordanian establishments. Moreover, the "mining and quarrying" sector came in the second in terms of non-Jordanian establishments with a percentage of 2.1 percent, followed by the "financial and insurance" activities with a percentage of 1.5 percent. Figure (7).

Figure (7)

Distribution of Informal Sector and Small and Medium Establishment by Economic Activities and Nationality of Establishment in Each Sector (%)

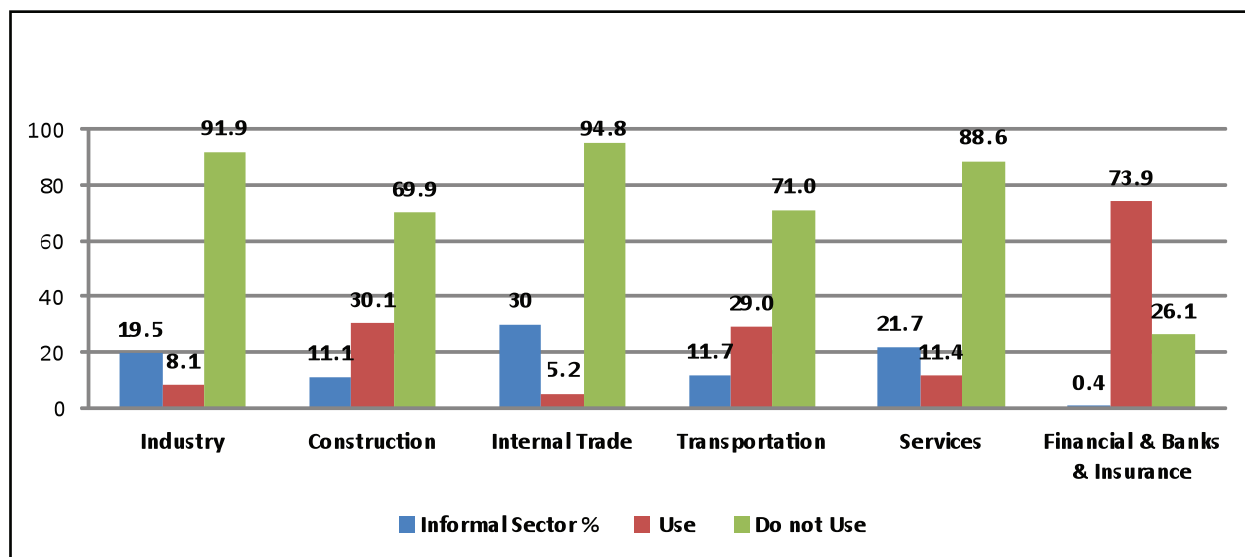


Informal Sector and Establishments' Bookkeeping

There seems to be a dominant trait on the informal sector and its establishments, the trait is that the lack of use book-keeping and this seems rational and logical, where such establishments are not registered and have no industrial or commercial records. To restructure the previously mentioned sectors and economic activities (as shown in previous tables) into five sectors only (figure 8), we find that the informal sector composed 30 percent of the foreign trade sector, 21.7 percent of the services sector, 19.5 percent of the manufacturing sector, 11.7 percent for the transport sector, and 11.1 percent in the construction sector. It is noticed that in reference to the relative distribution for the informal sector and the SMEs according to economic activity and keeping accounting records, that whenever the informal sector participation rate in the economic activity rises the more the establishments in the informal sector that do not keep accounting records. For example, if the informal sector's high participation in the internal trade activity of 30 percent and on the other hand the percentage of establishments that do not use accounting records is the highest in the same sector, i.e. 94.8 percent, it is found that the "finance, banking and insurance" sector registered the lowest participation of the informal sector (0.4 percent) and the highest to use accounting records (73.9 percent).

Figure (8)

Distribution of Informal Sector and Small Medium Establishment by Economic Activity and Use of Regular Register of Accounting (%)



Legal Status of Establishments in Informal Sector

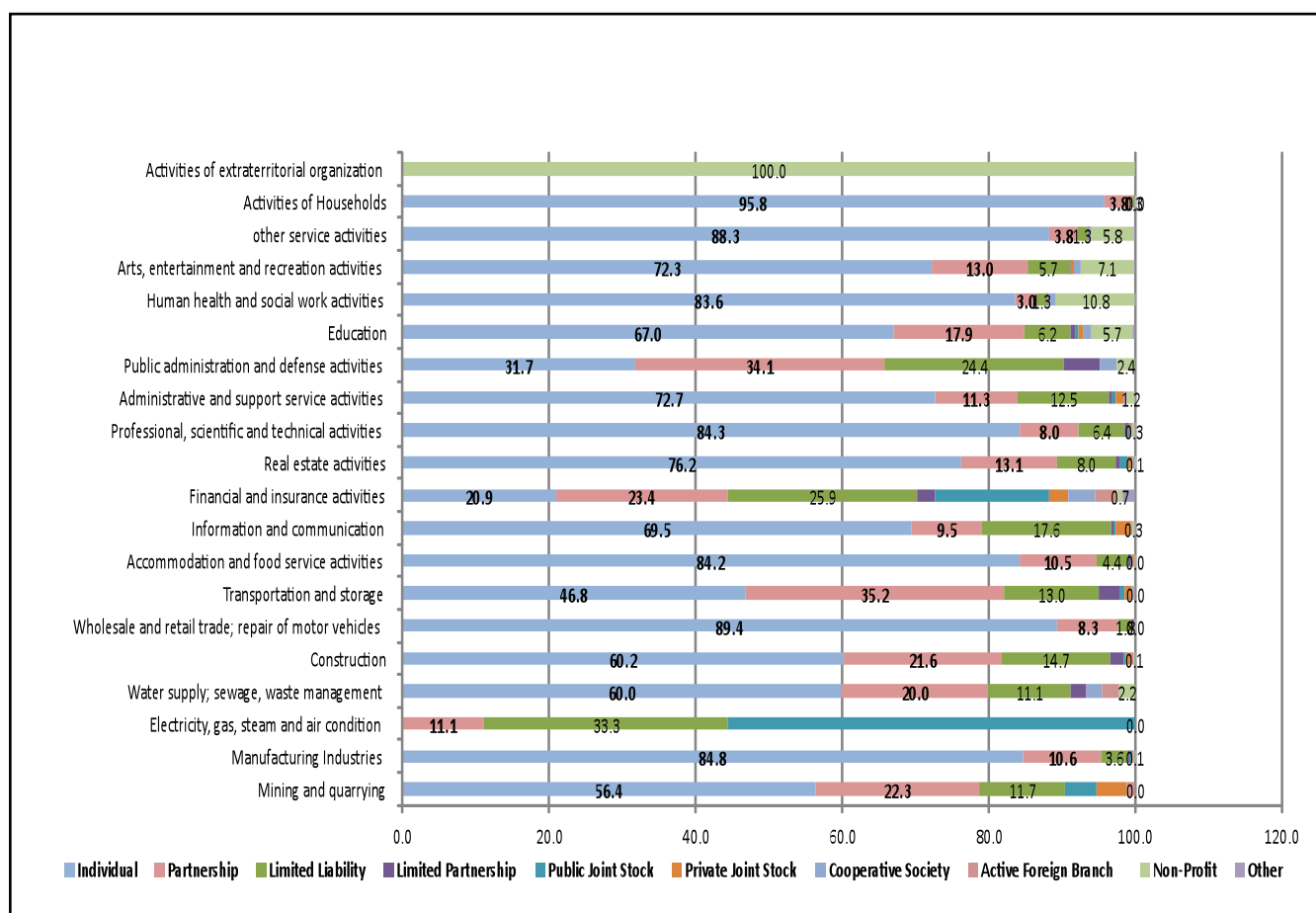
Most existing establishments in the informal sector were distributed mainly into three forms according to its legal status: individual establishments, solidarity establishments and limited liability establishments.

The figures indicate that 95.8 percent of establishments in "household activities" sector were individual establishments, 89.4 percent of the "wholesale and retail and vehicle maintenance" sector, 84.8 percent of establishments in the "manufacturing" sector, and 84.3 percent in the "vocation, technical and scientific activities" sector. The lowest percentage of individual establishments was in the "financial and insurance" sector; where it reached (20.9 percent). However, there was no single establishment in the "electricity, gas, steam and air conditioning supply" sector.

Figure (9) clarifies that the most existence for solidarity establishments was concentrated in the "transportation and storage" with a percentage of (35.2percent), followed by the "public administration and defense activities" sector with a percentage of (34.1percent), and the "financial and insurance activities" sector with a percentage of (23.4percent). Finally, the lowest percentages of sectors that have solidarity establishments were concentrated in the "household activities" sector with a percentage of (3.8 percent). As for the limited liability establishments, it was estimated that around one third of existing establishments were concentrated in "electricity, gas, steam and air conditioning supply" with a percentage (33.3 percent), "financial and insurance activities" sector with a percentage of (25.9 percent), "public administration and defense activities" sector with a percentage of (24.4percent). Further, the lowest percentage of solidarity establishments was concentrated in the "household activities" sector; amounting to (0.30 percent).

Figure (9)

Distribution of Informal Sector and Small and Medium Establishment by Economic Activity and Legal Status (%)



The percentages regarding the legal status of the informal sector establishments can be demonstrated as follows:

1. 4.9 percent of the "public administration and defense activities" are solidarity establishments.
2. Regarding the "electricity, gas, steam and air conditioning supply" sector it was shown that 55.6 percent of its establishments are public shareholding establishments. However, this form of establishments accounted for 15.5 percent of the financial and insurance activities.
3. The public shareholding establishments made up around 4.3 percent of the establishments in the "mining sector", additionally; the private shareholding establishments accounted for the same percentage of the same sector.
4. 3.7 percent of establishments in the "financial and insurance" sector and 2.4 percent establishments in the "public administration and defense" activities took the form of cooperative association.
5. The existing establishments that are branches of foreign companies made up 3.0 percent of the total informal sector establishments in the "financial and insurance activities" sector and 2.2 percent of the establishments of the "water, sewage and waste management supply" sector.

6. The non-profit trait applied to 10.8 percent of establishments of the "human health and social services activities" sector and 7.1 percent of the establishments in the "arts, promotion and entertainment activities" sector.

7. It was shown that all the establishments of the "organizations and foreign agencies activities" sector were in the form non for profit establishments.

Informal Sector and Establishments Revenues

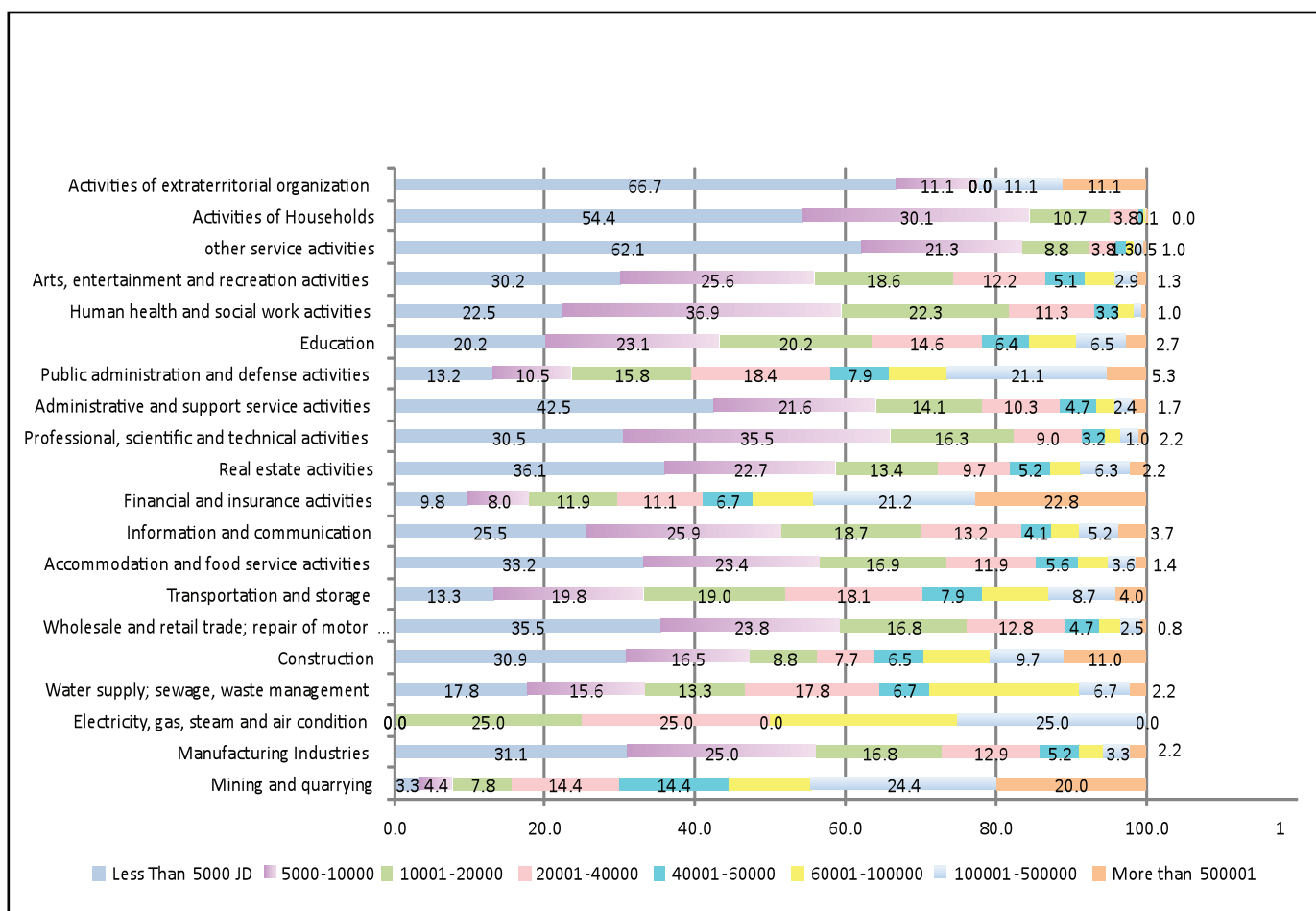
Overall it was evident that the annual revenues created by most establishments in the informal sector don't exceed JD 40 thousand, which is reasonable given the size of such establishments.

In relation to the establishments that create annual revenues of less than JD 5 thousand, they accounted for a third of the "organization and foreign agencies activities" sector, and 54.4 percent of the establishments of the "household activities" sector and 36.1 percent of establishments of the "real estate activities" sector. On the other hand, the establishments which create annual revenues between JD 5 – 10 thousand made up 36.9 percent of establishments in the "human health and social services activities" sector and 35.5 percent in the "establishments of the vocational, technical and scientific activities" sector.

The percentage of the establishment distribution comes in the two revenue categories, i.e. between JD (10001-20000) and JD (20001-40000). These two categories account for most of the average revenue in the informal sector establishments. The highest percentage for the first category was (25 percent) for the "electricity, gas, steam and air conditioning supply" sector followed by "health and social services activities" sector (22.3 percent), and the education sector (20.2 percent). As for the second revenue category, it was highest in the "electricity, gas, steam and air conditioning supply sector"; amounting to (25percent), followed by "public administration and defense" with (18.4 percent) as well as "transportation and storage sector" with (18.1percent), Figure (10)

Figure (10)

Distribution of Informal Sector and Small and Medium Establishment by Economic Activity and Annual Revenues Category (%)



In further details, some percentages are highlighted here specific to the relative distribution for the informal sector and its establishments according to the annual revenues:

1. Around 70 percent of the establishments of the mining sector created annual revenues exceeding JD 40 thousand. Further, in "electricity, gas, steam and air conditioning supply", "financial and insurance activities", and "public administration and defense activities" sectors the percentage was around 50 percent, 59 percent, and 42.2 percent, accordingly.

2. The annual revenue category of JD 5-10 thousand for establishments made up a high percentage of total establishments; "electricity, gas, steam and air conditioning supply" sector has 25 percent of such establishments, the mining sector has 24.4 percent, the "financial and insurance activities" sector has 21.2 percent and finally the "public administration and defense activities" sector has 21.2 percent. These percentages are relatively high and reflect the large size of the establishments in these sectors and the low participation for the informal economy in those activities. This conclusion is assured by having the "financial and insurance activities" sector take the lead with 22.8 percent of this sector's revenues exceed JD 50 thousand, followed by mining sector with a percentage of 20 percent.

Chapter Four

Policy recommendations

Policy recommendations

The informal sector's main issue remains with the sector's inability, or unwillingness, of registering the employees in any form of social security and insure that they have their basic working rights, therefore it is crucial to find a legal mechanism that forces these establishments, regardless if they were SMEs or large corporations, to cover their employees with social security and give them their full rights and protection. This can be achieved to by activating the new Social Security Law and introducing, as soon as possible, the SME Law that the Government is currently drafting. It is also of vital importance for the chambers of industry and commerce to encourage their members to be covered in social security and health insurance, and to extend more efforts to widen the registration of respective establishments in these chambers. Increasing inspection programs and specific establishment visits to make sure that employees are covered by basic employee rights is also needed. Inspection should target social security issues and labor law issues.

On the other hand, the government institutions have a huge role and responsibility in making the informal sector formal. The aforementioned institutions should work on facilitating business startup and providing tax incentives to entrepreneurs. Additionally, they should support expanding the private sector, especially in small business, but make sure that social security and health insurance, and other labor rights, are applied to workers. By doing so, the government will indirectly encourage youth to work and eventually take away the vibe that the private sector is not stable or sustainable. This by default will allow youth to work in the private sector and decrease the rate of unemployment; thus contribute in poverty alleviation.

On another front, the Government in cooperation with the private sector should enhance its public – private sector partnership in vocational and technical training, whereby producing qualified workers is an incentive for the private sector to employ them and expand their businesses. To complement providing the private sector with qualified personnel, the synchronization between the supply and demand in the labor force can contribute to preventing job seekers from working in the informal sector. Many youth, or job seekers, end up working in jobs with no contract, social security or health insurance because their specialization is either saturated with employees or is not valuable for the private sector, therefore synching the supply and demand between the labor market and the education providers will allow job seekers to find jobs with better working conditions.

The availability of appropriate financing, in terms of size and conditions, was one of the issues that have been raised in almost all focus group and interviews with the experts, officials, and civil society representatives. Further, the lack of awareness about various microfinance programs, institutions, and initiatives was a common issue in focus group. Therefore, initiating and expanding the awareness campaigns in this regards is very important, including raising awareness about the availability of financing through schemes in compliance with Sharia. Not only this, but the high cost of microfinance was also raised, an issue which needs to be revisited by public and private MFIs.

It was evident that a large segment of informally employed individuals work from home and therefore it is crucial to accept giving licenses to those individuals who operate from their homes. This will not only allow more women participation in the labor force but will also encourage youth to start up simple ideas from their homes. To achieve that, legislations need to be amended and awareness on the new regulations needs to be introduced to encourage home businesses to register.

Last, but not least, the study and the literature review indicated sectors that have high informal employment within them, therefore it is of utmost importance to focus on such sectors and study each sector individually in detail in order to solve the informality issue within.

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Annexes

Table (1)***Distribution of the Informal Sector and Economic Establishment by Economic Activities (%)***

| Economic Sector | Informal percent | Active Economic Establishment by Economic Sector |
|--|-------------------------|---|
| Mining and quarrying | 0.9 | 0.1 |
| Manufacturing Industries | 18.6 | 14.3 |
| Electricity, gas, steam and air condition | 0.1 | 0.0 |
| Water supply; sewage, waste management a | 0.2 | 0.0 |
| Construction | 11.1 | 0.8 |
| Wholesale and retail trade; repair of motor vehicles | 30 | 57.5 |
| Transportation and storage | 11.7 | 0.8 |
| Accommodation and food service activities | 3.5 | 6.2 |
| Information and communication | 1.4 | 0.6 |
| Financial and insurance activities | 0.4 | 0.3 |
| Real estate activities | 0.4 | 1.7 |
| Professional, scientific and technical activities | 1.3 | 3.6 |
| Administrative and support service activities | 0.9 | 0.6 |
| Public administration and defense activities | 0.4 | 0.0 |
| Education | 3.9 | 1.5 |
| Human health and social work activities | 2.6 | 3.2 |
| Arts, entertainment and recreation activities | 0.3 | 0.7 |
| other service activities | 5.2 | 2.0 |
| Activities of Households | 0.8 | 6.2 |
| Activities of extraterritorial organization | 0.7 | 0.0 |
| Total | 94.4 | 100.0 |

Table (2)***Distribution of Small Medium and Large Establishment by Economic Activities (%)***

| Economic Sector | Informal Sector percent | Small Medium and Large Establishment percent | Large Establishment percent | Total |
|--|--------------------------------|---|------------------------------------|--------------|
| Mining and quarrying | 0.9 | 95.7 | 4.3 | 100 |
| Manufacturing Industries | 18.6 | 99.6 | 0.4 | 100 |
| Electricity, gas, steam and air condition | 0.1 | 44.4 | 55.6 | 100 |
| Water supply; sewage, waste management | 0.2 | 100.0 | 0.0 | 100 |
| Construction | 11.1 | 99.0 | 1.0 | 100 |
| Wholesale and retail trade; repair of motor vehicles | 30 | 100.0 | 0.0 | 100 |
| Transportation and storage | 11.7 | 99.5 | 0.5 | 100 |
| Accommodation and food service activities | 3.5 | 99.8 | 0.2 | 100 |
| Information and communication | 1.4 | 99.4 | 0.6 | 100 |
| Financial and insurance activities | 0.4 | 95.1 | 4.9 | 100 |
| Real estate activities | 0.4 | 100.0 | 0.0 | 100 |
| Professional, scientific and technical activities | 1.3 | 99.9 | 0.1 | 100 |
| Administrative and support service activities | 0.9 | 99.9 | 0.1 | 100 |
| Public administration and defense activities | 0.4 | 92.7 | 7.3 | 100 |
| Education | 3.9 | 98.8 | 1.2 | 100 |
| Human health and social work activities | 2.6 | 99.7 | 0.3 | 100 |
| Arts, entertainment and recreation activities | 0.3 | 99.9 | 0.1 | 100 |
| other service activities | 5.2 | 99.9 | 0.1 | 100 |
| Activities of Households | 0.8 | 100.0 | 0.0 | 100 |
| Activities of extraterritorial organization | 0.7 | 100.0 | 0.0 | 100 |

Table (3)***Distribution of Informal Sector and Small and Medium Establishment by Economic Activities (%)***

| Economic Sector | Informal Sector percent | Small Medium and Establishment To the total of SMEs | Large Establishment To the Total Large Establishment |
|--|--------------------------------|--|---|
| Mining and quarrying | 0.9 | 0.1 | 1.6 |
| Manufacturing Industries | 18.6 | 14.2 | 36.6 |
| Electricity, gas, steam and air condition | 0.1 | 0.0 | 2.0 |
| Water supply; sewage, waste management | 0.2 | 0.0 | 0.0 |
| Construction | 11.1 | 0.8 | 4.9 |
| Wholesale and retail trade; repair of motor vehicles | 30 | 57.6 | 8.5 |
| Transportation and storage | 11.7 | 0.8 | 2.4 |
| Accommodation and food service activities | 3.5 | 6.2 | 9.3 |
| Information and communication | 1.4 | 0.6 | 2.4 |
| Financial and insurance activities | 0.4 | 0.2 | 8.1 |
| Real estate activities | 0.4 | 1.7 | 0.4 |
| Professional, scientific and technical activities | 1.3 | 3.6 | 2.8 |
| Administrative and support service activities | 0.9 | 0.6 | 0.4 |
| Public administration and defense activities | 0.4 | 0.0 | 1.2 |
| Education | 3.9 | 1.5 | 11.4 |
| Human health and social work activities | 2.6 | 3.2 | 6.5 |
| Arts, entertainment and recreation activities | 0.3 | 0.7 | 0.4 |
| other service activities | 5.2 | 2.0 | 0.8 |
| Activities of Households | 0.8 | 6.2 | 0.0 |
| Activities of extraterritorial organization | 0.7 | 0.0 | 0.0 |
| Total | 94.4 | 100.0 | 100.0 |

Table (4)**Distribution of Economic Establishment by Employees Category and Governorate (%)**

| Governorate | Employees Category | | Total |
|--------------|--------------------|------------|------------|
| | 1-249 | ≥ 250 | |
| Amman | 99.7 | 0.3 | 100 |
| Balqa | 99.9 | 0.1 | 100 |
| Zarqa | 99.9 | 0.1 | 100 |
| Madaba | 100.0 | 0.0 | 100 |
| Irbid | 99.9 | 0.1 | 100 |
| Ma'raq | 99.9 | 0.1 | 100 |
| Jarash | 99.9 | 0.1 | 100 |
| Ajlun | 100.0 | 0.0 | 100 |
| Karak | 100.0 | 0.0 | 100 |
| Tafiela | 100.0 | 0.0 | 100 |
| Ma'an | 100.0 | 0.0 | 100 |
| Aqaba | 99.9 | 0.1 | 100 |
| Total | 99.8 | 0.2 | 100 |

Table (5)***Distribution of Economic Establishment by Employees Category and Governorate out of Total Establishment in each Category (%)***

| Governorate | Employees Category | |
|--------------|--------------------|--------------|
| | 1-249 | ≥ 250 |
| Amman | 44.9 | 73.6 |
| Balqa | 5.2 | 4.1 |
| Zarqa | 15.2 | 10.6 |
| Madaba | 2.3 | 0.4 |
| Irbid | 17.2 | 6.5 |
| Mafrq | 3.0 | 1.2 |
| Jarash | 2.2 | 1.2 |
| Ajlun | 1.7 | 0.0 |
| Karak | 3.4 | 0.4 |
| Tafiela | 1.1 | 0.0 |
| Ma'an | 1.6 | 0.0 |
| Aqaba | 2.2 | 2.0 |
| Total | 100.0 | 100.0 |

Table (6)***Distribution of Informal Sector and Small and Medium Establishment by Economic Activities and Nationality of Establishment (%)***

| Economic Sector | Informal Sector | Nationality of Establishment | |
|--|-----------------|------------------------------|---------------|
| | | Jordanian | Non Jordanian |
| Mining and quarrying | 0.90 | 0.1 | 1.4 |
| Manufacturing Industries | 18.60 | 14.2 | 14.8 |
| Electricity, gas, steam and air condition | 0.10 | 0.0 | 0.0 |
| Water supply; sewage, waste management | 0.20 | 0.0 | 0.0 |
| Construction | 11.10 | 0.8 | 2.9 |
| Wholesale and retail trade; repair of motor vehicles | 30.00 | 57.6 | 42.4 |
| Transportation and storage | 11.70 | 0.8 | 3.0 |
| Accommodation and food service activities | 3.50 | 6.2 | 5.2 |
| Information and communication | 1.40 | 0.6 | 4.4 |
| Financial and insurance activities | 0.40 | 0.2 | 4.2 |
| Real estate activities | 0.40 | 1.7 | 2.2 |
| Professional, scientific and technical activities | 1.30 | 3.6 | 4.5 |
| Administrative and support service activities | 0.90 | 0.6 | 0.7 |
| Public administration and defense activities | 0.40 | 0.0 | 0.0 |
| Education | 3.90 | 1.5 | 2.9 |
| Human health and social work activities | 2.60 | 3.2 | 3.0 |
| Arts, entertainment and recreation activities | 0.30 | 0.7 | 0.0 |
| other service activities | 5.20 | 2.0 | 2.2 |
| Activities of Households | 0.80 | 6.2 | 3.7 |
| Activities of extraterritorial organization | 0.70 | 0.0 | 2.2 |
| Total | 94.4 | 100 | 100 |

Table (7)

Distribution of Informal Sector and Small and Medium Establishment by Economic Activities and Nationality of Establishment in Each Sector (%)

| Economic Sector | Informal Sector percent | Nationality of Establishment | | Total |
|--|-------------------------|------------------------------|---------------|-------|
| | | Jordanian | Non Jordanian | |
| Mining and quarrying | 0.90 | 97.9 | 2.1 | 100 |
| Manufacturing Industries | 18.60 | 99.9 | 0.1 | 100 |
| Electricity, gas, steam and air condition | 0.10 | 100.0 | 0.0 | 100 |
| Water supply; sewage, waste management | 0.20 | 100.0 | 0.0 | 100 |
| Construction | 11.10 | 99.7 | 0.3 | 100 |
| Wholesale and retail trade; repair of motor vehicles | 30.00 | 99.9 | 0.1 | 100 |
| Transportation and storage | 11.70 | 99.7 | 0.3 | 100 |
| Accommodation and food service activities | 3.50 | 99.9 | 0.1 | 100 |
| Information and communication | 1.40 | 99.4 | 0.6 | 100 |
| Financial and insurance activities | 0.40 | 98.5 | 1.5 | 100 |
| Real estate activities | 0.40 | 99.9 | 0.1 | 100 |
| Professional, scientific and technical activities | 1.30 | 99.9 | 0.1 | 100 |
| Administrative and support service activities | 0.90 | 99.9 | 0.1 | 100 |
| Public administration and defense activities | 0.40 | 100.0 | 0.0 | 100 |
| Education | 3.90 | 99.8 | 0.2 | 100 |
| Human health and social work activities | 2.60 | 99.9 | 0.1 | 100 |
| Arts, entertainment and recreation activities | 0.30 | 100.0 | 0.0 | 100 |
| other service activities | 5.20 | 99.9 | 0.1 | 100 |
| Activities of Households | 0.80 | 99.9 | 0.1 | 100 |
| Activities of extraterritorial organization | 0.70 | 66.7 | 33.3 | 100 |

Table (8)

Distribution of Informal Sector and Small Medium Establishment by Economic Activity and Use of Regular Register of Accounting (%)

| Economic Activities | Informal Sector percent | Use | Do not Use | Total |
|-------------------------------|-------------------------|------|------------|-------|
| Industry | 19.5 | 8.1 | 91.9 | 100.0 |
| Construction | 11.1 | 30.1 | 69.9 | 100.0 |
| Internal Trade | 30 | 5.2 | 94.8 | 100.0 |
| Transportation | 11.7 | 29.0 | 71.0 | 100.0 |
| Services | 21.7 | 11.4 | 88.6 | 100.0 |
| Financial & Banks & Insurance | 0.4 | 73.9 | 26.1 | 100.0 |

Table (9)

Distribution of Informal Sector and Small and Medium Establishment by Economic Activity and Legal Status (%)

| Economic Sectors | Informal Sector % | Legal Status | | | | | | | | | | Total |
|--|-------------------|--------------|-------------|-------------------|---------------------|--------------------|---------------------|---------------------|-----------------------|------------|-------|-------|
| | | Individual | Partnership | Limited Liability | Limited Partnership | Public Joint Stock | Private Joint Stock | Cooperative Society | Active Foreign Branch | Non-Profit | Other | |
| Mining and quarrying | 0.90 | 56.4 | 22.3 | 11.7 | 0.0 | 4.3 | 4.3 | 0.0 | 1.1 | 0.0 | 0.0 | 100 |
| Manufacturing Industries | 18.60 | 84.8 | 10.6 | 3.6 | 0.3 | 0.3 | 0.2 | 0.1 | 0.0 | 0.1 | 0.0 | 100 |
| Electricity, gas, steam and air condition | 0.10 | 0.0 | 11.1 | 33.3 | 0.0 | 55.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| Water supply; sewage, waste management | 0.20 | 60.0 | 20.0 | 11.1 | 2.2 | 0.0 | 0.0 | 2.2 | 2.2 | 2.2 | 0.0 | 100 |
| Construction | 11.10 | 60.2 | 21.6 | 14.7 | 2.0 | 0.2 | 0.6 | 0.0 | 0.6 | 0.1 | 0.1 | 100 |
| Wholesale and retail trade; repair of motor vehicles | 30.00 | 89.4 | 8.3 | 1.8 | 0.2 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 100 |
| Transportation and storage | 11.70 | 46.8 | 35.2 | 13.0 | 2.9 | 0.6 | 0.9 | 0.4 | 0.2 | 0.0 | 0.0 | 100 |
| Accommodation and food service activities | 3.50 | 84.2 | 10.5 | 4.4 | 0.3 | 0.2 | 0.3 | 0.0 | 0.1 | 0.0 | 0.0 | 100 |
| Information and communication | 1.40 | 69.5 | 9.5 | 17.6 | 0.4 | 0.2 | 2.0 | 0.0 | 0.3 | 0.3 | 0.1 | 100 |
| Financial and insurance activities | 0.40 | 20.9 | 23.4 | 25.9 | 2.5 | 15.5 | 2.7 | 3.7 | 3.0 | 0.7 | 1.7 | 100 |
| Real estate activities | 0.40 | 76.2 | 13.1 | 8.0 | 0.7 | 1.0 | 0.6 | 0.3 | 0.0 | 0.1 | 0.0 | 100 |
| Professional, scientific and technical activities | 1.30 | 84.3 | 8.0 | 6.4 | 0.4 | 0.1 | 0.4 | 0.1 | 0.1 | 0.3 | 0.1 | 100 |
| Administrative and support service activities | 0.90 | 72.7 | 11.3 | 12.5 | 0.5 | 0.5 | 1.0 | 0.2 | 0.2 | 1.2 | 0.0 | 100 |
| Public administration and defense activities | 0.40 | 31.7 | 34.1 | 24.4 | 4.9 | 0.0 | 0.0 | 2.4 | 0.0 | 2.4 | 0.0 | 100 |
| Education | 3.90 | 67.0 | 17.9 | 6.2 | 0.6 | 0.5 | 0.6 | 1.1 | 0.0 | 5.7 | 0.3 | 100 |
| Human health and social work activities | 2.60 | 83.6 | 3.0 | 1.3 | 0.0 | 0.1 | 0.1 | 1.0 | 0.0 | 10.8 | 0.1 | 100 |
| Arts, entertainment and recreation activities | 0.30 | 72.3 | 13.0 | 5.7 | 0.2 | 0.1 | 0.4 | 1.0 | 0.0 | 7.1 | 0.3 | 100 |
| Other service activities | 5.20 | 88.3 | 3.8 | 1.3 | 0.2 | 0.0 | 0.1 | 0.2 | 0.0 | 5.8 | 0.3 | 100 |
| Activities of Households | 0.80 | 95.8 | 3.8 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100 |
| Activities of extraterritorial organization | 0.70 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 | 0.0 | 100 |

Table (10)**Distribution of Informal Sector and Small and Medium Establishment by Economic Activity and Annual Revenues Category (%)**

| Economic Sectors | Informal Sector % | Small and Medium Establishment % | | | | | | |
|--|-------------------|----------------------------------|------------|-------------|-------------|-------------|--------------|---------------|
| | | Less Than 5000 JD | 5000-10000 | 10001-20000 | 20001-40000 | 40001-60000 | 60001-100000 | 100001-500000 |
| Mining and quarrying | 0.9 | 3.3 | 4.4 | 7.8 | 14.4 | 14.4 | 11.1 | 24.4 |
| Manufacturing Industries | 18.6 | 31.1 | 25.0 | 16.8 | 12.9 | 5.2 | 3.5 | 3.3 |
| Electricity, gas, steam and air condition | 0.1 | 0.0 | 0.0 | 25.0 | 25.0 | 0.0 | 25.0 | 25.0 |
| Water supply; sewage, waste management | 0.2 | 17.8 | 15.6 | 13.3 | 17.8 | 6.7 | 20.0 | 6.7 |
| Construction | 11.1 | 30.9 | 16.5 | 8.8 | 7.7 | 6.5 | 8.9 | 9.7 |
| Wholesale and retail trade; repair of motor vehicles | 30.0 | 35.5 | 23.8 | 16.8 | 12.8 | 4.7 | 3.1 | 2.5 |
| Transportation and storage | 11.7 | 13.3 | 19.8 | 19.0 | 18.1 | 7.9 | 9.1 | 8.7 |
| Accommodation and food service activities | 3.5 | 33.2 | 23.4 | 16.9 | 11.9 | 5.6 | 4.1 | 3.6 |
| Information and communication | 1.4 | 25.5 | 25.9 | 18.7 | 13.2 | 4.1 | 3.8 | 5.2 |
| Financial and insurance activities | 0.4 | 9.8 | 8.0 | 11.9 | 11.1 | 6.7 | 8.3 | 21.2 |
| Real estate activities | 0.4 | 36.1 | 22.7 | 13.4 | 9.7 | 5.2 | 4.3 | 6.3 |
| Professional, scientific and technical activities | 1.3 | 30.5 | 35.5 | 16.3 | 9.0 | 3.2 | 2.3 | 2.2 |
| Administrative and support service activities | 0.9 | 42.5 | 21.6 | 14.1 | 10.3 | 4.7 | 2.7 | 2.4 |
| Public administration and defense activities | 0.4 | 13.2 | 10.5 | 15.8 | 18.4 | 7.9 | 7.9 | 21.1 |
| Education | 3.9 | 20.2 | 23.1 | 20.2 | 14.6 | 6.4 | 6.2 | 6.5 |
| Human health and social work activities | 2.6 | 22.5 | 36.9 | 22.3 | 11.3 | 3.3 | 2.0 | 1.0 |
| Arts, entertainment and recreation activities | 0.3 | 30.2 | 25.6 | 18.6 | 12.2 | 5.1 | 4.1 | 2.9 |
| other service activities | 5.2 | 62.1 | 21.3 | 8.8 | 3.8 | 1.3 | 1.1 | 1.0 |
| Activities of Households | 0.8 | 54.4 | 30.1 | 10.7 | 3.8 | 0.6 | 0.3 | 0.1 |
| Activities of extraterritorial organization | 0.7 | 66.7 | 11.1 | 0.0 | 0.0 | 0.0 | 0.0 | 11.1 |

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