

# 4 The changing nature of work: an overview of informal employment in Malaysia<sup>1</sup>

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Informal employment or work that falls outside the ambit of standard employment contracts is not a new feature of the global economy. What is striking, however, is its rapid rise in recent decades, particularly in developed countries in which standard employment contracts and relationships have been the norm. In contrast, informal employment has always been more prevalent in emerging and developing countries than in developed countries (OECD/ILO, 2019). Globalisation, rapid technological advancement, and social and demographic changes are among the factors that have contributed to the increasing diversity and fluidity of work. More importantly, diversity has presented a major challenge to employment-based protection policies – from which informally employed workers are typically excluded – in countries at all levels of development (World Bank, 2019b). Informally employed workers can be working in either the formal or the informal sector. The International Conference of Labour Statisticians (ICLS) provides standards and guidelines on the definition and measurement of informal employment (International Labour Organisation [ILO], 2013). The conceptual framework for informal employment is illustrated in figure 4.1.

Following the 17th ICLS guidelines, the formality status of own-account workers, employers, contributing or unpaid family workers and members

of producers' cooperatives depends on the formality status of the type of enterprise they are working in.<sup>2</sup> In comparison, the formality status of employees depends on the conditions of employment. Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income tax, social protection or entitlement to certain employment benefits (such as, advance notice of dismissal, severance pay, paid annual or sick leave). In practice, countries use different indicators to determine the formality of employment (figure 4.2). Of the indicators in figure 4.2, Malaysia uses four: social security coverage, paid annual leave, paid sick leave and paid maternity leave.<sup>3</sup>

Informal employment includes gig employment, which refers to non-standard employment typically facilitated through digital labour platforms (ILO, 2021). Gig employment is usually flexible and based on short-term, temporary arrangements between organisations and individuals. There are two broad categories of digital labour platforms: online web-based platforms and location-based platforms (ILO, 2021). Through these platforms, three types of tasks can be performed: (i) digital microtasks, (ii) freelance or digital work, both hosted on online web-based platforms, or (iii) location-based work, hosted on location-based platforms. Digital microtasks refer to simple tasks that do not require specific skills, such as data entry or image processing. Freelance work refers to skilled digital work, such as website development, graphic design or software testing. Location-based work refers to work enabled through digital means (typically through an app) but needs to be performed on site, such as ride-hailing, delivery and domestic services.

The rapid rise of informal employment, with gig employment at the forefront, raises concerns over workers' protection. Social protection in many countries, including Malaysia, is traditionally based on formal and fixed employment. Thus, the rise of temporary and other types of non-standard employment arrangements that do not provide workers with social protection, such as retirement savings, employment injury insurance, health insurance and other benefits, also increases their vulnerability to health and financial shocks.

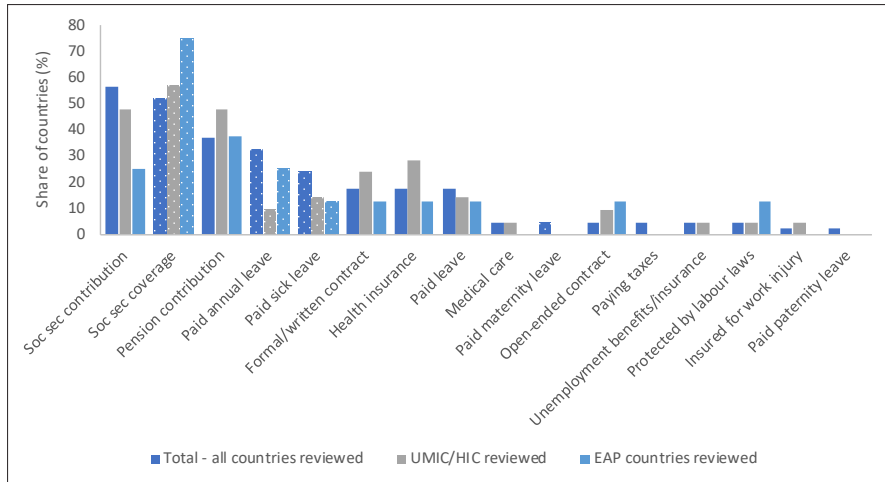
**Figure 4.1: Conceptual framework for informal employment**

Production units by type	Status in employment											
	Employers		Employees		Own-account workers		Unpaid family workers		Members of producer's cooperatives			
	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal	Formal		
Formal sector enterprise	Dark Blue	Light Blue	Grey	Light Blue	Dark Blue	Light Blue	Grey	Dark Blue	Dark Blue	Light Blue		
Informal sector enterprise	Grey	Dark Blue	Grey	Light Blue	Grey	Dark Blue	Grey	Dark Blue	Grey	Dark Blue		
Households	Grey	Dark Blue	Grey	Light Blue	Grey	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue		
<table border="0" style="width:100%; text-align:center;"> <tr> <td style="width:33%;"> By definition an impossible combination</td> <td style="width:33%;"> Informal employment</td> <td style="width:33%;"> Formal employment</td> </tr> </table>										By definition an impossible combination	Informal employment	Formal employment
By definition an impossible combination	Informal employment	Formal employment										

Source: Adapted from ILO (2013)

Note: Informal sector enterprises include all household unincorporated enterprises, excluding households employing paid domestic workers. It is defined by the 15th ICLS resolution. Households include those producing goods exclusively for their own final use and those employing domestic workers.

**Figure 4.2: Indicators used to define informal employment**



Source: Authors' analysis using OECD/ILO (2019) and national statistics offices

Note: The patterned bars reflect indicators used in Malaysia. Calculations are based on 46 countries, including Europe and Central Asia, Latin America and the Caribbean, East Asia and the Pacific.

This chapter provides an overview of informal employment in Malaysia that could be used to inform policies and programmes to support the protection and productivity of informally employed workers. The next section defines informal employment in Malaysia. This is followed by an outline of the trends in informal employment over the years, a description of the employment characteristics, and the policies and programmes in place. The chapter concludes by elaborating on four main messages. First, informally employed workers are not homogenous and policies should allow and cater for this heterogeneity. Second, there is some evidence that informally employed workers are less productive than the formally employed. Third, informally employed workers are more economically vulnerable than the formally employed, reemphasising the importance of government support, particularly during times of crises. Fourth, Malaysia has made important progress in providing individual-based protection and new approaches should be explored and tested further.

## **1.0 Defining and measuring informal employment**

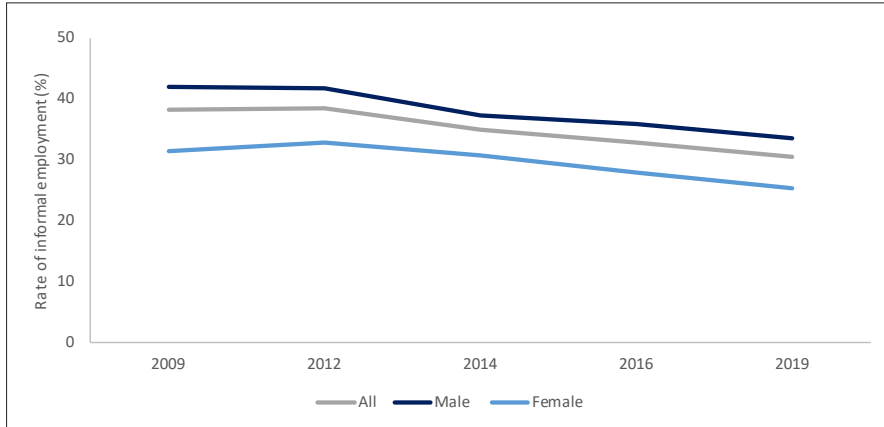
For the purpose of this chapter, an informally employed worker is defined as one without access to social insurance (i.e. pension, retirement savings or employment injury insurance) or unpaid family worker or an employer or own account worker in an informal sector enterprise. In the case of Malaysia, social insurance typically includes coverage from the Employees Provident Fund (EPF) or Social Security Organisation (Socso). This definition is consistent with international definitions. Figure 4.2 shows that out of 46 countries, more than half include (the lack of) social security coverage as one of the characteristics of informal employment. Registering a worker for a social security scheme means that in the event of an economic shock, such as during the Covid-19 pandemic, the worker would be identifiable to the government for the purpose of channelling economic support, such as targeted cash transfers. The definition used here includes workers in all sectors, including agriculture.<sup>4</sup>

### **1.1 Trends in informal employment**

While globally, there has been a rise in non-standard forms of employment, data for Malaysia suggest that the rate of informal employment has been

declining. Figure 4.3 shows that it declined from 38.2% in 2009 to 30.5% in 2019 – the rate in 2019 translates into about 4.6 million workers.<sup>5</sup> The same figure shows that the rate of informally employed men has consistently been higher than women. In 2019, the gap between the two stood at 8.3 percentage points.

**Figure 4.3: Rate of informal employment, 2009-2019**

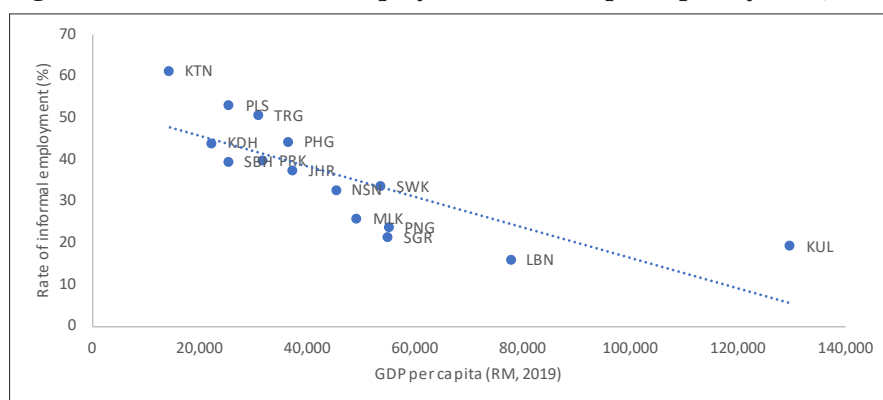


Source: Authors' calculations using the Household Income Survey (Department of Statistics Malaysia, DOSM)

As mentioned previously, those in informal employment are those who do not have social insurance coverage. Thus, the declining rate of informal employment over the years may be partly due to programmes implemented by EPF and Socso to protect informally employed workers (see section 3.0). Specifically, in 2010, EPF introduced a voluntary contribution programme known as Skim Persaraan 1Malaysia (SP1M), which has since been rebranded to i-Saraan in 2018, while Socso introduced the employment injury and disability insurance for self-employed workers called the Self-Employment Social Security Scheme (SESSS) the same year. The number of members enrolled in i-Saraan and SESSS has been increasing since their inception. Hence, while the downward trend of the rate of informal employment is likely due to an increase in the creation of formal jobs over time, the declining rate of informal employment between 2016 and 2019 is partly due to the increase in EPF and Socso coverage through i-Saraan and SESSS.

In Malaysia, the less-developed states have higher rates of informal employment. Figure 4.4 shows that there is a negative relationship between GDP per capita and the rate of informal employment at the state level. The rate of informal employment is higher in more rural and less developed states, such as Kelantan and Perlis at 59.3% and 50.4% respectively. The informal employment rate is substantially lower in the more developed states of Kuala Lumpur, Selangor and Penang at 15.6%, 17.8% and 21.2% respectively. The correlation coefficient of the relationship is -0.78, which is relatively high.

**Figure 4.4: Rate of informal employment and GDP per capita by state, 2019**



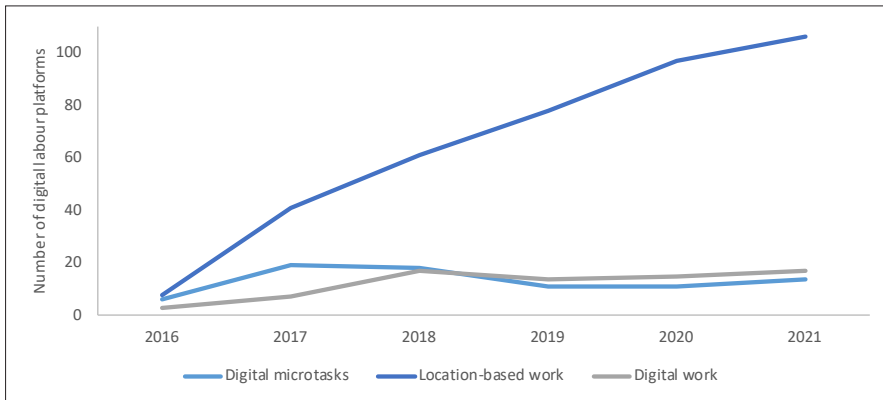
Source: Authors' calculations using the Household Income Survey (DOSM)

This highlights one of the positive aspects of informal employment. In the absence of sufficient formal employment opportunities, informal employment provides an alternative to sustain livelihoods. The same argument is made in describing informal employment as a shock absorber at times of crises (McCaig & Pavcnik, 2021). On the other hand, even though the relationship is not causal, it does suggest lower levels of productivity in states with higher rates of informal employment.

Despite the decrease in the informal employment rate over time, data from the Malaysia Digital Economy Corporation (MDEC) reflect the increasing prevalence of employment through digital labour platforms, or gig employment. Of the three broad categories of digital labour platforms and associated work, location-based work has seen the largest growth, both in terms of number of platforms and number of workers (figure 4.5

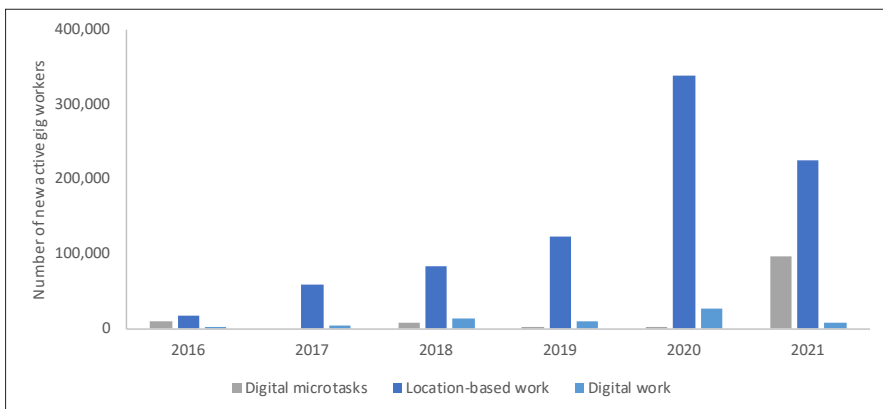
and 4.6). In 2021, there were 106 digital labour platforms (equivalent to 77.4% of all platforms) facilitating location-based work registered with MDEC. In the same year, the share of gig workers performing location-based work was 68.1%. The predominance of location-based work in Malaysia, particularly ride-hailing and delivery services, is apparent in the widely dominant notion that gig work colloquially refers to the two types of work.<sup>6</sup>

**Figure 4.5: Number of digital labour platforms registered with MDEC, 2016-2021**



Source: MDEC

**Figure 4.6: Number of new active gig workers working on MDEC's platform partners, 2016-2021**

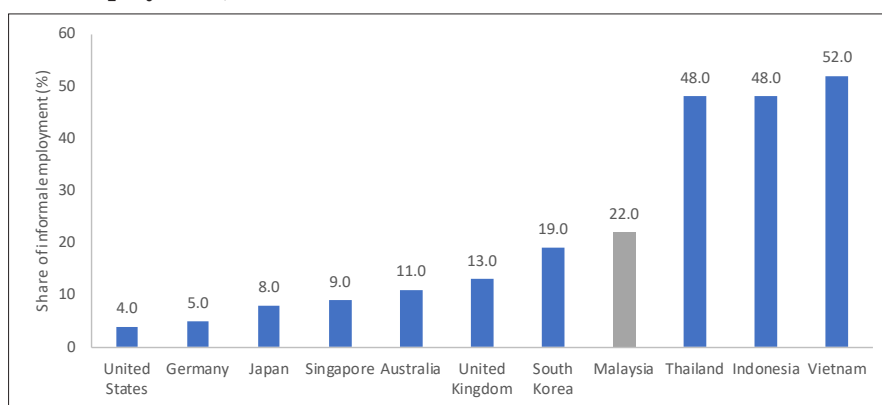


Source: MDEC

Note: New active gig workers are defined as income earners on digital labour platforms registered with MDEC

There is some indication that informal employment in Malaysia is higher than in more developed countries but lower than regional peers, which are less developed. Figure 4.7 shows that own account workers and unpaid family workers made up about 22% of employment in 2019. This is higher than more developed countries, such as the United States, Germany and Japan. However, this share is lower than in less-developed regional peers, such as Thailand, Indonesia and Vietnam, which are known to have high rates of informal employment.

**Figure 4.7: Own account workers and unpaid family workers as a share of total employment, 2019**

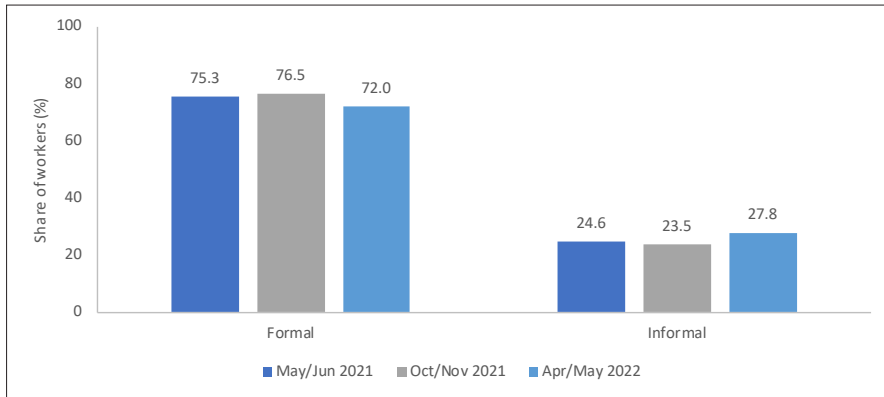


Source: ILOSTAT and Labour Force Survey (DOSM)

Data collected by the World Bank (2021) during Covid-19 through a high frequency phone survey (HiFy) found that the share of informally employed workers increased throughout the pandemic and even as the economy gradually recovered in mid-2022 (figure 4.8). Moreover, the same dataset showed that people not working at the start of the pandemic were more likely to have obtained informal jobs rather than formal jobs during May-June 2021 (World Bank, 2021). This suggests that for those outside the labour force during a crisis, it may be easier to access informal jobs. Informal jobs, therefore, served an important role of providing these new entrants with the means to earn an income or as a shock absorber during a crisis. Nonetheless, informal jobs do not offer adequate protection and may not be ideal in the longer term. Their more precarious and less remunerative nature will be discussed in section 2.1.



**Figure 4.8: Share of workers by employment status during Covid-19**



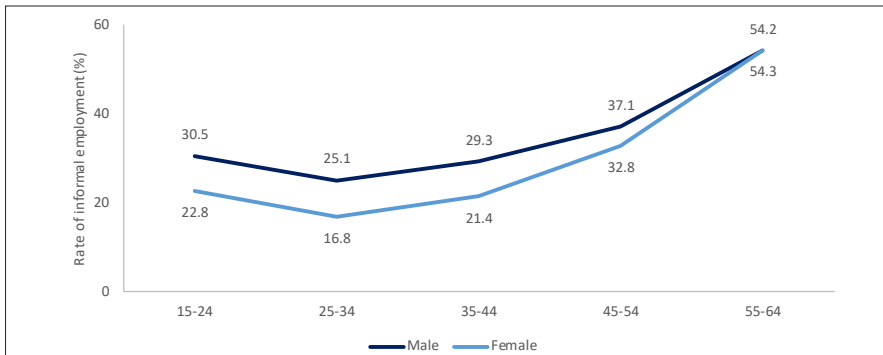
Source: World Bank (2021)

## 2.0 Profiles of informally employed workers

Informal employment is more likely among youth and older persons. Figure 4.9 shows that for both men and women, the informal employment rate is higher among those aged 15 to 24, compared with 25-34 and 35-44. This is plausibly due to informal employment in the transition between secondary school and tertiary education, which typically occurs after the age of 17. After 44, the informal employment rate increases substantially, peaking at about 54% for those 55 to 64. This is consistent with earlier research, which found that the share of self-employed workers – who are more likely to be informally employed – increases with age (World Bank, 2020). Further, data collected by the Institute of Labour Market Information and Analysis (ILMIA, 2019) suggest that 53.3% of respondents above 40, who are interested in working longer, plan to be self-employed.<sup>7</sup> Qualitative evidence indicates that many older workers in Malaysia opt for self-employment after they have reached the minimum retirement age of 60, partly because of more flexible working hours (ILMIA, 2019). At the same time, the minimum retirement age of 60 appears to act as a strong signal to retire to both employers and employees, buttressed by the EPF minimal withdrawal age (Geppert et al., 2019; ILMIA, 2019; World Bank, 2020). This may decrease both the opportunity and the preference for formal employment as they grow older.

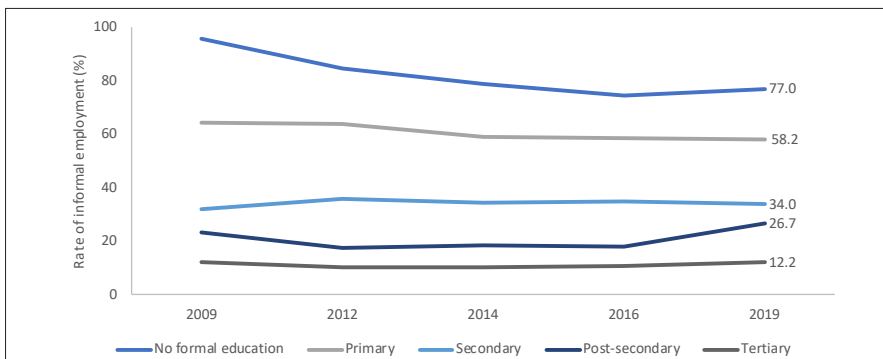
Informal employment is also higher among those with lower levels of education, consistent with the largely mid-skilled nature of informal employment in Malaysia. Figure 4.10 shows that the informal employment rate is highest among workers with no formal education at 77%. The rate is lower for workers with higher levels of education and lowest among those with tertiary education at 12.2%. This is consistent with the occupational skill level of informally employed workers, with about 70% of the informally employed in mid-skilled jobs. In comparison, 18% hold low-skilled jobs and 13% high-skilled jobs. This data also reinforces the finding of the predominance of location-based work compared to digital work – which typically requires higher levels of education and skill – on digital labour platforms. The decline in the rate of informal employment among workers with either no formal education or primary education

**Figure 4.9: Rate of informal employment by age group, 2019**



Source: Authors' calculations using the Household Income Survey (DOSM)

**Figure 4.10: Rate of informal employment by education level, 2009-2019**

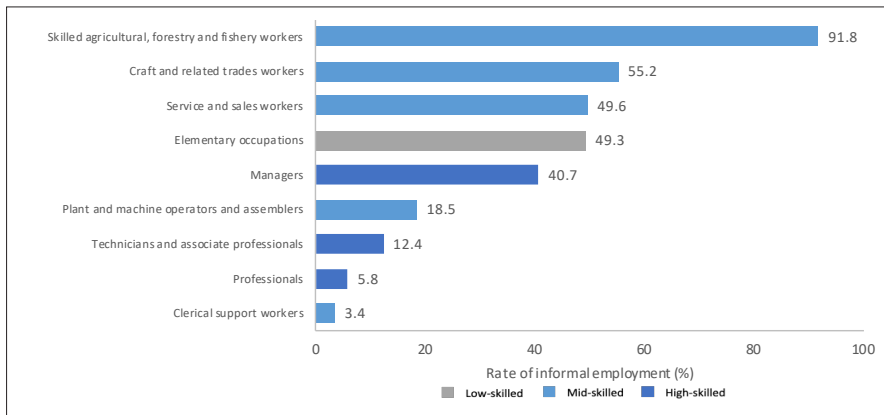


Source: Authors' calculations using the Household Income Survey (DOSM)

over time is reflective of the decline in the rate of informal employment overall (see figure 4.3).

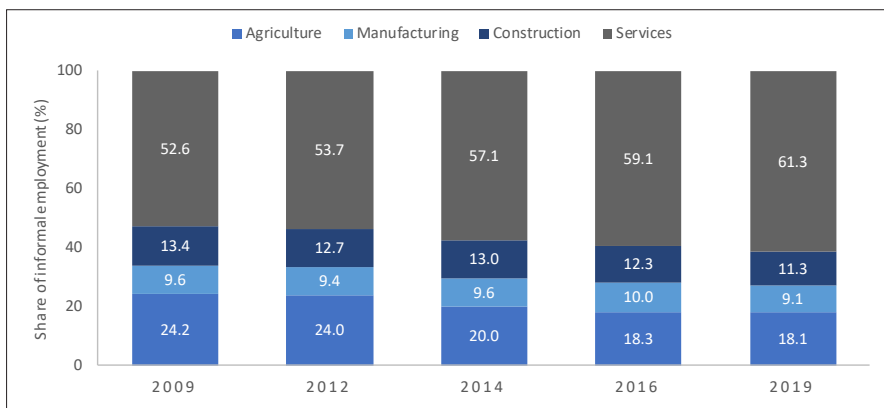
The rate of informal employment is highest among workers in agricultural occupations at 91.8% followed by craft and trade workers at 55.2% (figure 4.11). These jobs are also typically mid-skilled jobs.<sup>8</sup> At the same time, informally employed workers largely comprised of those working in the services sector, taking up 61.3% of the share in 2019, followed by agriculture, construction, manufacturing and mining.

**Figure 4.11: Rate of informal employment by occupation, 2019**



Source: Authors' calculations using the Household Income Survey (DOSM)

**Figure 4.12: Share of informal employment by sector, 2009-2019**



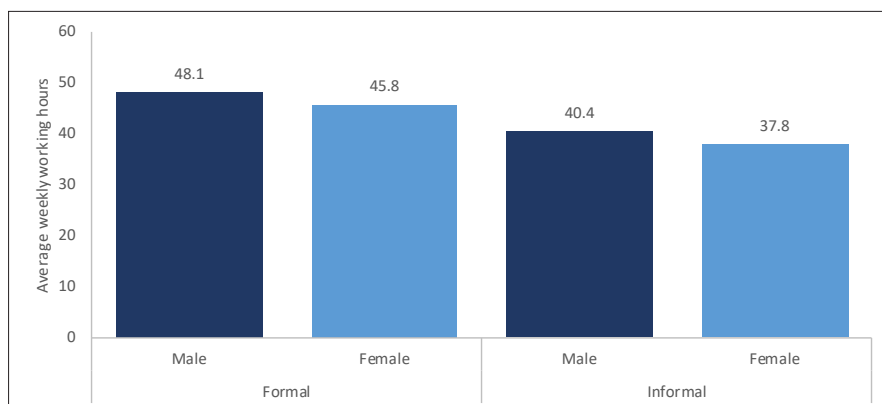
Source: Authors' calculations using the Household Income Survey (DOSM)

Note: The share of informal employment in the mining sector is very low, at 0.2% in 2019

## 2.1 Characteristics of informally employed workers

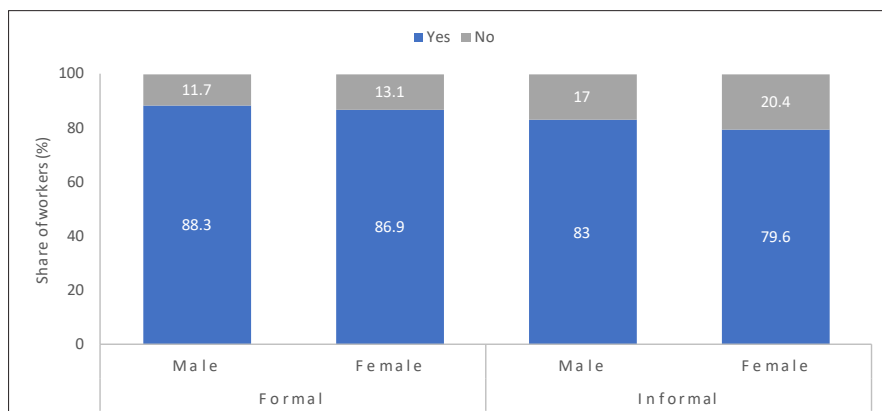
On average, informally employed workers work less than formally employed workers and appear less willing and able to work more hours. As shown in figure 4.13, formally employed workers work about eight hours more per week compared with the informally employed, regardless of sex. At the same time, figure 4.14 shows that a slightly higher share of informally employed workers are less willing or able to work more hours. This may reflect the fact that some workers choose to be informally

**Figure 4.13: Average weekly working hours by type of employment and sex, 2017**



Source: Authors' calculations based on Labour Force Survey (DOSM)

**Figure 4.14: Willingness and ability to work more hours by type of employment and sex, 2017**



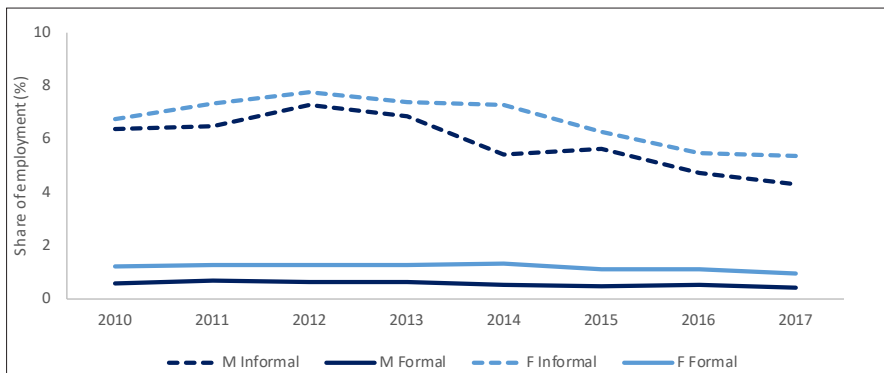
Source: Authors' calculations based on Labour Force Survey (DOSM)

employed because they would not need to or are unable to work full time. Informally employed women are also more likely to work less hours and less willing to work more hours, possibly because of caregiving and household responsibilities (World Bank, 2019a).

Both time- and skill-related underemployment is higher among informally employed workers with a majority experiencing skill-related underemployment. Time-related underemployment captures the share of workers working less than 40 hours a week who are willing and able to work more hours. In 2017, the time-related underemployment rate was 4.8% for informally employed workers and 0.6% for formally employed workers, and slightly higher for women compared with men (figure 4.15). Skill-related underemployment, defined as the share of workers with tertiary education working in mid- or low-skilled jobs, is also higher among informally employed workers. In 2019, the skill-related underemployment rate stood at 69.2% for informally employed workers and 21.6% for formally employed workers.

The relatively rapid increase in the underemployment rate of informally employed workers has led to a widening of the gap in the underemployment rate between informally and formally employed workers, from 18.5 percentage points in 2010 to 46.7 in 2019. The skill-related underemployment rate is particularly high for informally employed women at 77.2% compared with 68.9% for men. These

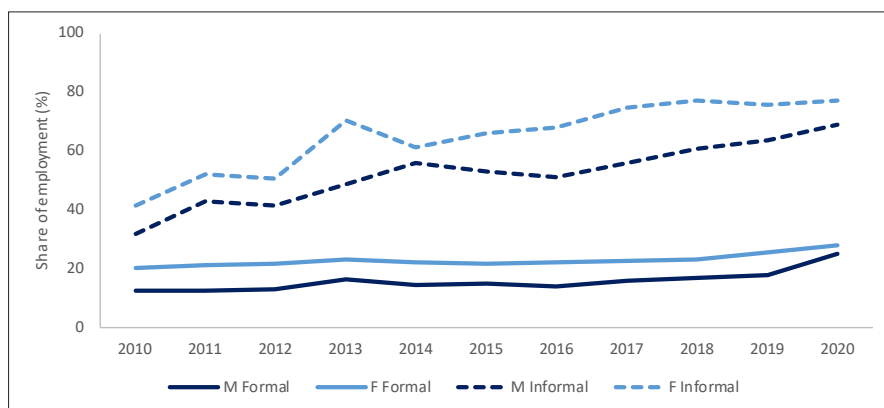
**Figure 4.15: Time-related underemployment by type of employment and sex, 2010-2017**



Source: Authors' calculations using the Labour Force Survey (DOSM)

findings suggest that the largely low- and mid-skilled nature of informal employment in Malaysia reflects an underutilisation of human capital, which can have an adverse effect on productivity (Vandeplass & Thum-Thuysen, 2019). Although skill-related underemployment is high for the economy (World Bank, 2022), its increase is driven by the high and rapidly increasing rate among informally employed workers.

**Figure 4.16: Skill-related underemployment by type of employment and sex, 2010-2020**

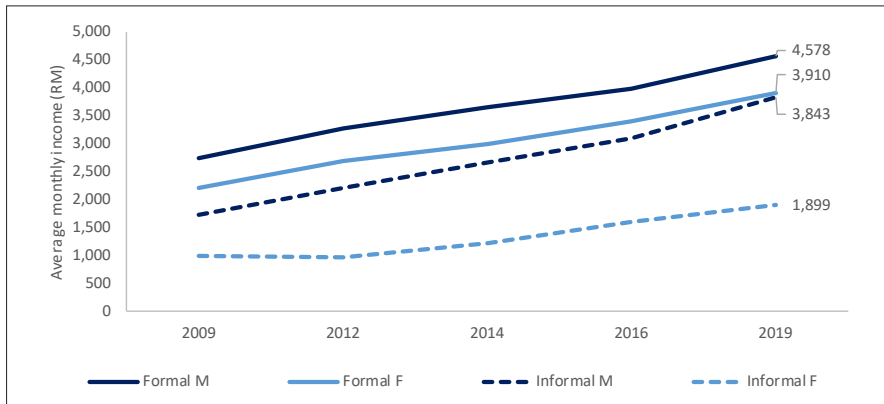


Source: Authors' calculations using the Labour Force Survey (DOSM)

Informally employed workers earn less than formally employed workers on average, even after factoring differences in working hours, education level, age, sector of employment, ethnicity and urban-rural location. Both figure 4.17 and 4.18 show that average monthly income is higher for formally employed workers compared to informally employed workers and that the gap is also higher among women. This disparity remains even after controlling for working hours, education level, age, sector of employment, ethnicity and urban-rural location, suggesting that informally employed workers are penalised for their status in employment, rather than socioeconomic characteristics and sector of employment, as shown in figure 4.18. That said, the formality premium – or the degree to which earnings are higher for formally employed workers compared with informally employed workers, after controlling for the aforementioned characteristics – has been declining over time, from 43.4% in 2009 to 30.4% in 2019. One factor contributing to the formality

premium is the skill-related underemployment, which is substantially higher for informally employed workers, particularly women. The gender gap in earnings in Malaysia is also a well-known phenomenon – between 2010 and 2017, men have consistently earned more than women, where women’s average earnings were 70.6% to 83.2% of men’s average earnings across different educational groups (World Bank, 2019a).

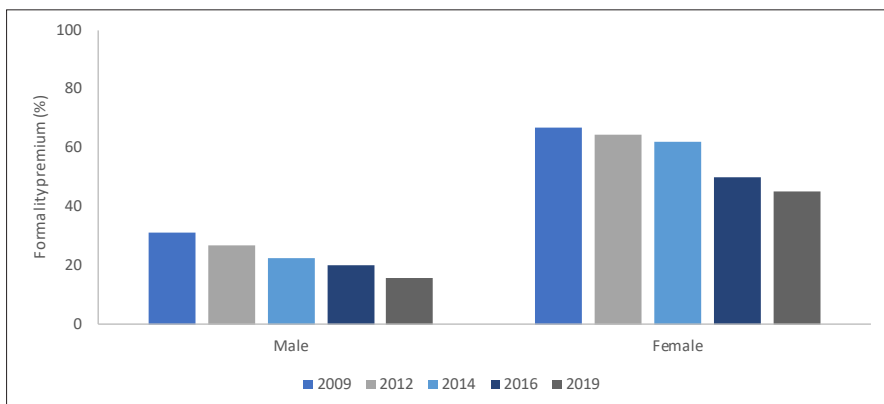
**Figure 4.17: Average monthly income by type of employment and sex, 2009-2019**



Source: Authors’ calculations using the Household Income Survey (DOSM)

Note: Unpaid family workers are excluded

**Figure 4.18: Formality premium based on hourly earnings by type of employment and sex, 2009-2019<sup>9</sup>**

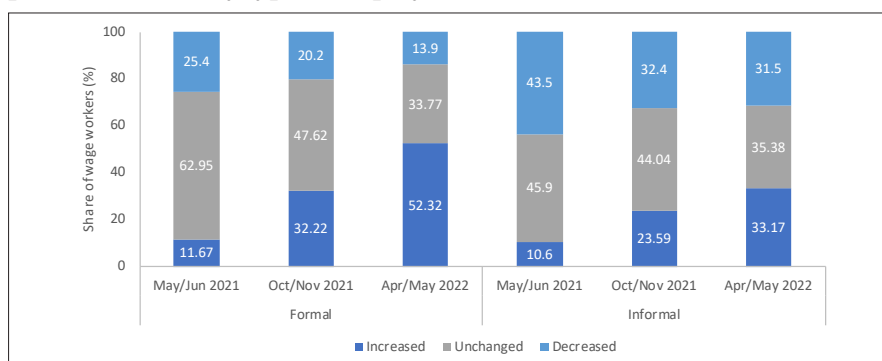


Source: Authors’ calculations using the Household Income Survey (DOSM)

Note: Unpaid family workers are excluded. The Mincer regressions control for education level, age, age-squared, sector of employment, ethnicity and urban-rural location.

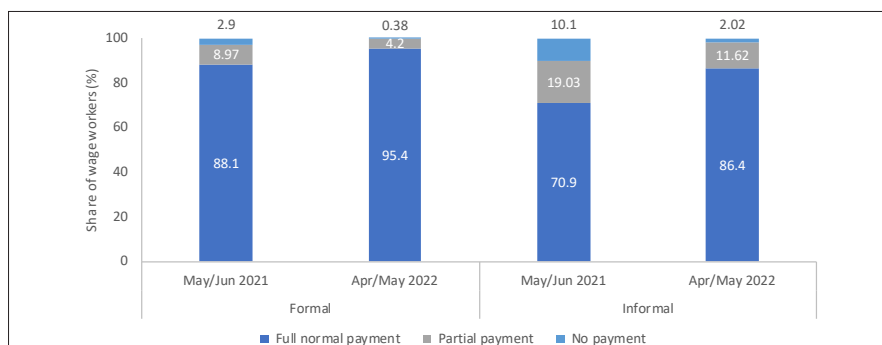
During the pandemic, informally employed workers were more likely to have experienced income reductions and irregular wage payments. As seen in figure 4.19, about 46% of informally employed workers experienced an income reduction, compared with 24% of formally employed workers. This is particularly pronounced among informally employed men (World Bank, 2021). Informally employed workers were also less likely to have received normal payments and more likely to have received no payment at all (figure 4.20). This resulted in higher probabilities of food insecurity and inability to pay rent among informally employed workers, with a more pronounced effect among those from low-income households and those who had experienced a decrease in income (World Bank, 2021).

**Figure 4.19: Share of workers and income changes compared to pre-pandemic levels by type of employment**



Source: World Bank (2021)

**Figure 4.20: Share of workers and payment received in the last 30 days by employment type**



Source: World Bank (2021)



### 3.0 Policies and programmes for informally employed workers

Malaysia has made important strides in developing policies and programmes for informally employed workers, as summarised in figure 4.21. These include Socso and EPF social insurance schemes, Job Search Allowance by the Employment Insurance System (EIS) and support for access to digital labour platforms by MDEC.

**Figure 4.21: Overview of main policies and programmes for informally employed workers**

<b>Social insurance</b> <ul style="list-style-type: none"><li>• Self-Employment Social Security Scheme (mandated and voluntary) by Socso</li><li>• i-Saraan by EPF</li></ul>
<b>Job search allowance</b> <ul style="list-style-type: none"><li>• Employment Insurance System Job Search Allowance+ (SIP EMP+)</li></ul>
<b>Digital labour platforms</b> <ul style="list-style-type: none"><li>• Job facilitation, onboarding support and training for access to digital labour platforms (eRezeki and GLOW) by MDEC</li></ul>

Source: Authors' elaboration

#### • **Employment injury and disability insurance**

SESSS was introduced in 2017 and provides the self-employed protection against employment injuries, including occupational diseases and accidents during work-related activities. It also provides temporary disablement benefits and permanent disablement benefits. Workers can make either monthly or annual contributions, with the minimum monthly payment at RM13.10 (for an insured monthly earning of up to RM1,050, and the highest at RM49.40 (for an insured monthly earning of up to RM3,950).

During the pandemic, the government increased its support for the protection of informally employed workers by offering partly and fully subsidised coverage for SESSS. In June 2020, the government announced it would subsidise 70% of the contributions for SESSS. In 2021, the government fully subsidised SESSS for selected categories of workers: delivery riders, volunteers from the military, police, public defence and

maritime sectors, mosque workers (guru takmir, noja, siak, imam, bilal and merbut), and public sector workers employed under contracts. This support was extended in 2022, with some categories of workers eligible for an 80% subsidy for SESSS and others eligible for a full subsidy.

SESSS represents an important step forward for the protection of informally employed workers and is considered a novel approach even by global standards. It moves away from the “traditional” model of employment-based protection towards individual-based protection, which is what the World Bank (2019b) suggests is needed given the changing nature of work. However, it does face several challenges. The first is the low take-up rate. In 2020, with a 70% subsidy from the government, the coverage of SESSS was 5.1% of self-employed. In 2021, when it was fully subsidised for selected workers, it went up to 16.4%. While this is a significant increase, a majority of self-employed workers remain uncovered. Moreover, this coverage was only achieved with high or full subsidisation by the government. This gives rise to the fiscal sustainability of the programme in a fiscally constrained environment (see World Bank, 2022).

- **Retirement savings**

In 2010, EPF, which is Malaysia's national retirement savings fund catering to the private sector, introduced SP1M, a retirement savings programme for the self-employed, which later rebranded to i-Saraan in 2018. i-Saraan is a voluntary matching contribution scheme through which EPF members, who are self-employed and do not earn a regular income, can make voluntary contributions of up to RM60,000 per year. The government provides a 15% matching contribution for all eligible workers – including those without fixed employer contributions and under 60 – of up to RM250 per year. This matching contribution is valid between 2018 and 2022. Registration and contributions to i-Saraan can be made both online and in person. Workers can make online transfer directly through their digital banking accounts with nine banks. Recurring contribution options are available for five out of these nine banks. Workers are also able to make contributions to i-Saraan at the counter in four banks and through EPF.

Despite efforts to increase coverage and accessibility, take-up remains low. Even though the absolute number of i-Saraan members has increased over time, coverage as a share of employment remains low. The share of i-Saraan members increased from 0.7% to 2% of all employed workers between 2017 and 2020. This is equivalent to 3.2% and 10.6% of all self-employed workers, defined as own account workers and unpaid family members. The same figure shows that the coverage of i-Saraan is higher among women, likely because of the simultaneous i-Suri matching contribution targeted at housewives.<sup>10</sup> As of 2021, there were 329,202 i-Saraan registrants (EPF, 2021). This represents about 2.2% of employment and 12% of self-employment in 2021.

EPF has also partnered with digital labour platforms to boost coverage of retirement savings. EPF partnered with Grab and GoGet, taking different approaches with each platform. Grab introduced matching contributions for its workers and organised a campaign to promote saving with EPF. There are also arrangements to set up mobile EPF teams at Grab offices to facilitate registration. The collaboration between EPF and GoGet is even more dynamic. Together, they have introduced a “contribute as you earn” model, through which workers on GoGet (referred to as GoGetters) have the option of contributing a share of their earnings from every job through automatic deductions. Further, GoGet introduced an easy registration process, allowing GoGetters to be opted-in to the programme with their consent. Finally, information on the importance of retirement savings is also shared on the app, alongside other information that may encourage GoGetters to enrol.

These novel approaches utilise behavioural techniques to support coverage and influence people to make choices that contribute towards their retirement savings. Other methods include a simplified registration process, townhall sessions with on-site registration and setting i-Saraan as a key performance indicator for EPF offices. These methods appear to have been successful in increasing EPF membership by workers on these platforms, which is an important first step in encouraging retirement savings. There remains to be room to increase the number of registered workers actively contributing and subsequently increasing the adequacy of their retirement savings. Nonetheless, these initiatives illustrate

the possibility of increasing coverage without the need to impose any mandate. This could also encourage other digital labour platforms to implement similar novel approaches to improve their workers' coverage.

- **Job search allowance**

In 2021, the government introduced unemployment assistance<sup>11</sup> in the form of job search allowance for non-Socso contributors, which continued in 2022 with a longer duration and a work preparation allowance. In 2022, the programme, referred to as SIP EMP+ (Sistem Insurans Pekerjaan Elaun Mencari Pekerjaan+ [Employment Insurance System Job Search Allowance+]) was opened to individuals aged 18 to 60 who had yet to register or contribute to Socso after 1 June 2021 and were not recipients of other forms of financial assistance administered by the EIS office. Beneficiaries are required to attend at least one interview for each allowance received, up to a maximum of three instalments of RM300. If a beneficiary is hired within four months, he is eligible to receive a one-off work preparation allowance of RM400. Beneficiaries are required to self-report attendance to interviews and job offers, with the EIS conducting spot checks. In effect, SIP EMP+ incentivises formal employment, or formalisation. Other than the financial assistance, beneficiaries are also assigned to a counsellor.

- **Digital labour platforms**

e-Rezeki is a digital labour platform aggregator which provides onboarding support and access to digital microtasks, location-based work (used interchangeably with the term “digitally enabled work”) and digital work hosted by digital labour platforms. These types of work are typically informal, as they do not provide automatic access to social insurance, leaving those who do not have other (formal) jobs uncovered. Hosted and developed by MDEC, a government agency tasked with the development of the digital economy in Malaysia, e-Rezeki's objective is to provide opportunities to earn additional income through working online, with a focus on those in the bottom 40% of the income distribution (B40). In the 11th Malaysia Plan (2016-2020), e-Rezeki was listed as one of the strategies to raise the income and wealth of B40 households. In the 12th Malaysia Plan (2021-2025), its importance was reiterated but with a slight shift in

focus. e-Rezeki was listed as one of the strategies to provide skills and opportunities to Sabahans and Sarawakians, who live in the two lagging states,<sup>12</sup> and as a means to expand digitalisation with the wider goal of inclusive development.

The onboarding support, provided both online and in-person, includes familiarisation with the portal and the process of applying for tasks or jobs offered by platforms, and receiving digital payments. Given that e-Rezeki is a digital platform *aggregator* and not a digital labour platform in and of itself, its role is to familiarise workers with the different types of work and digital labour platforms through which they would be able to obtain jobs.

MDEC also introduced the Global Online Workforce (GLOW) programme, which aims to equip workers with skills to perform digital work or to become freelancers. The training modules in GLOW relate to knowledge on starting a profile as a digital freelancer, understanding the workflow, managing and improving performance, and financial management. Given the high-skilled nature of digital work, the eligibility of GLOW is limited to Malaysians aged 18 and above with computer skills, English proficiency and the specialised skills needed to perform digital work, such as programming. During Covid-19, the government channelled emergency funds towards a strengthened version of GLOW targeted at retrenched workers, those who had salary cuts and unemployed graduates for digital freelance work. The GLOW PENJANA and GLOW PEMULIH programmes were the more intensive versions of GLOW, through which participants were trained, monitored and mentored for three months. Workers trained through GLOW could bid for digital work through e-Rezeki or directly on digital work platforms.

These programmes and their prominence in the Malaysia Plans and during the pandemic, illustrate the government's recognition of the potential of digital labour platforms supporting the livelihood of workers and the economy. e-Rezeki and all versions of GLOW are fully subsidised by the government. Nonetheless, there remain gaps in the protection of these workers and concerns over their long-term sustainability – financially and as a means to providing livelihoods. This is especially true for workers who rely on digital labour platforms as their main source of income.

## 4.0 Conclusions and policy recommendations

This chapter analyses trends in informal employment, profiles and characteristics of informally employed workers, and policies and programmes implemented for informally employed workers, with the main objective of providing an overview of informal employment in Malaysia, an area in which there is little knowledge and consensus about. This knowledge base can then be used to inform policies to support the protection and productivity of informally employed workers. The main findings and policy recommendations are:

- 1. Informally employed workers are not homogenous, and policies should allow and cater for heterogeneity.** Even though informal employment is colloquially referred to as being synonymous with gig work (in particular, ride hailing and delivery services, likely due to their rapid growth and ubiquity in recent years), data show that there is diversity in informal employment. It is important to not lose sight of more “traditional” informally employed workers, such as agricultural workers and hawkers. The informal employment rate among skilled agricultural, forestry and fishery workers is 92%, the highest among all occupations. Moreover, while some informally employed workers may choose informality, others may resort to informal employment due to the lack of suitable opportunities or arrangements to access formal employment. For example, older people may resort to informal employment due to difficulties in obtaining formal employment after the minimum retirement age of 60 (World Bank, 2020).

Women, particularly those after childbearing age, may opt for informal employment – which may underutilise their skills, thus leading to the high level of skill-related underemployment – to have the flexibility to be able to fulfil their household responsibilities (World Bank, 2019a). Hence, it is important to consider this heterogeneity when designing policies and programmes for gig workers. Given the seasonality of their work, some agricultural workers may require more flexible payment schemes to enable access to social insurance. They may also require greater outreach and financial literacy training compared to, for instance, digital

freelancers. Moreover, different groups of workers may also experience different barriers to enter formal employment. Ageism may be a barrier for older workers and women might lack access to affordable and quality care services. All in all, it is important for policy solutions to be tailored to tackle different challenges for different workers.

- 2. There is room to increase the productivity of the informally employed, who are generally less productive than formally employed workers.** First, the rate of informal employment is higher in less-developed states, with a relatively high correlation coefficient of -0.78 (excluding Kuala Lumpur, which has an exceptionally high level of GDP per capita, the correlation coefficient is -0.91). Second, formally employed workers earn about 30% more than the informally employed, after controlling for working hours, education level, age, sector of employment, ethnicity and urban-rural location. Third, informally employed workers are more likely to experience skill-related underemployment, with the gap being 48 percentage points. The formality premium and skill-related underemployment are likely related and because the informally employed are underemployed, they are likely to earn less than their formally employed counterparts, despite having the same level of education. More importantly, both the formality premium (or informality penalty) and skill-related underemployment are higher for women, suggesting that they are more likely to take less productive informal jobs compared with men, perhaps, as previously mentioned, because of the need for more flexible employment, given their household responsibilities (World Bank, 2019a). Nonetheless, this represents an underutilisation of productive resources in the economy. One option to address this issue is to provide opportunities for skills training to the informally employed, so that they may enhance their productivity. Skills training programmes can also be targeted at women.

- 3. Government support is important for informally employed workers, who are more economically vulnerable than formally employed workers, particularly during times of crises.** Other than earning less income and no access to social insurance through employment, World Bank data collected during the pandemic show that the informally employed were more vulnerable during the period. They were more likely to have experienced income reductions and irregular wage payments. Worryingly, this vulnerability also translated into more harmful coping strategies that may reduce their households' long-term productive potential. For example, they were more likely to have reduced food consumption and sale of assets, and this was true even among those who received government assistance (World Bank, 2021). These findings emphasise the need to strengthen the social-protection system in Malaysia. Government transfers during the pandemic were inadequate to offset the effects of shocks among low-income households, particularly among informally employed workers (who were often less likely to receive government support). This finding also highlights the need to improve social insurance coverage as a mechanism to channel financial support to a population that typically eludes both employment-related databases and registries that capture the hardcore poor.
- 4. New approaches should be explored and tested to improve individual-based protection.** The Socso and EPF schemes introduced during Covid-19 for informally employed workers represent novel approaches for extending coverage, even by global standards. Still, there remains room for improvement, particularly in terms of boosting their take-up rate. The government can work with different worker groups or workers on digital labour platforms to design pilot schemes that can cater to their preferences and needs, incorporating behavioural nudges to encourage take-up. It would then be important to systematically monitor and evaluate these pilot schemes to draw lessons for remedial action or future schemes.



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## Notes

<sup>1</sup> Yashodhan Ghorpade (World Bank) provided useful inputs and Natalie Cheng (World Bank) provided excellent research assistance. The findings here are based on a study conducted by the World Bank and the Human Capital Development Division of the Ministry of Economy in Malaysia on informal employment in Malaysia. An upcoming report will further elaborate on these findings, including that on the informal employment rate.

<sup>2</sup> A discussion of the informal sector is beyond the scope of this chapter. See International Labour Organisation (2013) for a full definition of the informal sector.

<sup>3</sup> The definition of informal employment in Malaysia is available in the Informal Sector Work Force Survey Report 2019 by the Department of Statistics Malaysia (DOSM).

<sup>4</sup> As stated in the Informal Sector Work Force Survey Report 2019 published by the DOSM, the official definition of informal employment in Malaysia excludes workers in the agriculture sector, as it is traditionally viewed to be difficult to apply the criteria for formality of businesses and employment to the agriculture sector. Given that the data sources used do not allow for the measurement of the exact definition of informally employed workers, proxy measures are used. For analyses using the Household Income Survey, informal employment is proxied by private sector employees not receiving contributions to EPF or Socso, all employers and own account workers who do not report any contributions to EPF or Socso, and all unpaid family workers. For analyses using the Labour Force Survey, informal employment is proxied by all account workers and all unpaid family workers.

<sup>5</sup> The Informal Employment and Informal Sector Survey Report 2021 by the DOSM shows that the informal employment rate stood at 23.3% in 2021.

<sup>6</sup> Gomes, V. (2021, October 4). Gig economy: The perks of fractional employment. *The Edge Malaysia*. <https://www.theedgemarkets.com/article/gig-economy-perks-fractional-employment>

<sup>7</sup> A survey on gathering views on work preferences of those aged 40 years old and above was conducted by the Institute of Labour Market Information and Analysis (ILMIA) in 2018 as part of the national strategic development plan on ageing population, with a sample of 4,832 respondents.

<sup>8</sup> The skill-level associated with jobs is based on their occupational groups based on the Malaysia Standard Classification of Occupations (Masco). Occupations in Masco 1-3 are high-skilled occupations, Masco 4-8 (mid skilled) and Masco 9 (low skilled).

<sup>9</sup> The hourly earnings variable was estimated by dividing monthly earnings by average work hours per month, where average work hours have been calculated by sex, status in employment (i.e. employer, employee, or own account worker), and ethnicity using LFS microdata. These variables have been found to account for more than 50% of the variation in working hours based on an R-squared decomposition.

<sup>10</sup> Under i-Suri, housewives or their husbands can make voluntary contributions to EPF, and are eligible to a 100% matching contribution of up to RM480 per annum. As of January 2022, 24.4% of i-Saraan members are housewives.

<sup>11</sup> While the programme is implemented by the Employment Insurance System office, it is more accurately described as unemployment assistance given that workers are not required to make contributions.

<sup>12</sup> World Bank (2022) describes lagging states in Malaysia as those with relatively low levels of GDP and high levels of poverty.