

**INFORMAL SECTOR TOWARDS LOCAL DEVELOPMENT:  
THE CASE OF A COMPONENT CITY**

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**ABSTRACT**

Informal sectors are inevitable component of the economic unit of any given country. This existence may have a negative or positive effects towards local development. This study was conducted to determine the perceived effects of the informal sectors to local development of Tuguegarao City. Mixed-research method employing both quantitative and qualitative research designs was used in the study. The study was conducted in Tuguegarao City specifically along the strategic areas such as Carig, Riverside and Buntun. For the quantitative aspect of the research, there were 500 respondents who were selected through purposive sampling method meeting the criteria that they belong to the informal sector, are operating without permits and are doing business in a small-scale. The study utilized survey questionnaire for the profiling. For the qualitative aspect of the study, focal persons from the Local Government Unit, Department of Labor and Employment and Department of Trade and Industry were interviewed on the perceived effects of informal sectors to local development. Also, some of those engaged in the informal sectors were also interviewed to verify the information gathered from the implementers. Results reveal that there are push factors or necessity-driven factors and pull factors or opportunity-driven factors affecting the engagement of the respondents in the informal sector. Topping this is the need to provide for the daily needs of the family, for the education of the children and debt payments. Also, results reveal that there are positive and negative effects of the existence of informal sectors to local development. To mention, for the positive effects, there is (1) generation of employment opportunities, (2) sustainable source of income, (3) community participation and environmental responsibility, (4) market opportunities and convenience and (5) transition of informal sector to formal sector. Lastly, for the negative perceived effects, informal sectors create (1) unfair competition between informal and formal sector (2) waste management problems, and (3) cause of traffic.

**Keywords:** *informal sector, informal sector engagement, local development, perceived effects, Tuguegarao City*

## INTRODUCTION

The informal economy, also known as the grey economy or the informal sector, is a sector of the economy that is not regulated or taxed by the government. The activities or characteristics of the grey economy are never accounted for in the country's GDP (GDP). The term "informal sector" was first used to refer to self-employment in a variety of unregistered businesses, but it was later expanded to include all wage jobs in the unmonitored sector (Migiro, 2017). In the developing world, informality is a much more pervasive phenomenon, with more than 2 billion people, representing 60% of workers and 80% of enterprises (ILO, 2020).

Informal sector plays a crucial role in local development particularly in urban poverty alleviation through creating jobs and reducing unemployment. As literature shows there are a number of reasons that drives the informal economy participants to enter to the informal sector and also there are a number of constraints that faces the informal economy participants when engaged in this sector (Adamu & Muguleta, 2018). The informal economy is an important part of local development in terms of economic, social and political life in most developing, as well as some developed economies. In countries with high rates of population growth or urbanization, the informal economy tends to absorb most of the growing labor force (MoLSA, 2013). Informal economy is continuously expanding in developing countries and providing employment and income to the poor. It is stimulating the growth of the market economy, promoting flexible labor market, stimulating and absorbing labor than the formal economy. Specifically, urban informal economy is a major source of employment and income in developing countries. The sector has helped the impoverished groups of the urban population to improve their business skills and income levels required for business development (Asaminew, 2010).

Informality, according to Garcia-Bolivar (2006), can be a problem for governments. Governments are unable to collect taxes from informal businesses and, as a result, are unable to fund the provision of adequate public services. In some cases, governments may push businesses into informality due to a lack of good public services, such as the rule of law. Governments then raise tax rates on those who continue to be formal, creating an additional incentive to be

## GRADUATE SCHOOL RESEARCH JOURNAL

informal. For governments, the informal sector could be a solution to unemployment. Where the formal economy is unable to absorb the excess labor due to its own constraints, the informal sector is the ideal solution. Perhaps it is for this reason that some governments tolerate informality to a large extent. Others have even gone so far as to see informality as a solution to the problem of unemployment, and have created a favorable framework for promoting the informal economy. That was the case in China following the mid-1990s (Garcia-Bolivar, 2006).

In the Philippines, the number of people working in the informal sector is growing year by year. According to records, millions of Filipinos earn a living from unregistered businesses. The Philippine government has made efforts to move workers from the informal to the formal sectors of the economy. In fact, the labor department has held consultative workshops in collaboration with the National Anti-Poverty Commission Workers in the Informal Sector Council (NAPC-WISC) to identify key policy gaps and challenges related to the government's emphasis on addressing informality, as well as strategies and models to operationalize the transition from an informal to a formal economy. The Department of Labor and Employment (DOLE) launched the Trabaho, Negosyo, Kabuhayan (TNK) initiative in collaboration with the Department of Trade and Industry (DTI), with key outputs including the Blueprint for Decent Employment and Entrepreneurship for 2017-2022 and the Livelihood Agenda for 2017-2022. Through full implementation of the GoNegosyo Law, the MSME Development Plan, and the Asia-Pacific Economic Cooperation (APEC) 2015 Action Agenda to Globalize MSMEs, the initiative sought to transform livelihoods into competitive, resilient, and sustainable enterprises by encouraging the formalization and growth of micro, small, and medium enterprises (MSMEs) (Department of Labor and Employment, 2017).

According to a news report published on April 18, 2018, the Department of Labor and Employment (DOLE) in Region 2 has set aside a total of P26.2 million in funds under the Integrated Livelihood and Emergency Employment Program (DILEEP) to supplement the income of the region's vulnerable and informal sectors. The funds will be distributed among the region's five provinces, and the livelihood program has two components: "Formation," which provides beneficiaries with start-up capital for individual or group ventures, and "Enhancement," which aims to provide additional working capital to beneficiaries' existing livelihood activities (Mercado, 2018). Another government initiative aimed at the informal sector in Cagayan is a forum organized by the National

## GRADUATE SCHOOL RESEARCH JOURNAL

Economic and Development Authority Regional Office 02. After attending the EFL forum on November 10, 2017, sixty (60) youth and workers in the informal sector in Region 2 successfully gained a deeper understanding of economic and financial literacy (EFL) (National Economic and Development Authority, 2017).

Tuguegarao City is a landlocked component city in the coastal province of Cagayan. It serves as the provincial capital as well as the regional center of Cagayan Valley. Its population as determined by the 2020 Census was 166,334. This represented 13.11% of the total population of Cagayan province, or 4.51% of the overall population of the Cagayan Valley region. The population as of 2020 shows an increasing percentage from last year (Tuguegarao City, Cagayan Profile – PhilAtlas, 2020). The Cagayan Valley Region has registered 11.7% poverty incidence rate based on the 2021 Family Income and Expenditure Survey, Philippine Statistics Authority (PSA) Region 2 revealed. Marilyn T. Estrada, regional director of Philippine Statistics Authority, said the province of Isabela registered the highest rate at 15.9%, followed by Nueva Vizcaya at 10.8%, Cagayan at 7.3% and Quirino at 6.2%. On the subsistence incidence among families, Estrada said the provinces have the same standing in which Isabela has the highest rate at 4.0%, followed by Nueva Vizcaya at 2.9%, Cagayan at 1.2%, Quirino at 0.9% and Batanes with only 0.2%. The subsistence incidence is defined as the proportion of Filipinos whose income is not enough to meet even just the basic food needs, Estrada said (Philippine Information Agency, 2022). From Cagayan, Tuguegarao City the poverty incidence was 4.19% as of 2018. For this reason, some families' income is not enough to meet the even just the basic food needs, some are forced to enter the informal sector as their source of income.

In a context of high unemployment, underemployment, poverty, gender inequality, and precarious work, the informal economy thrives. It plays a significant role in such circumstances, particularly in income generation, due to the relative ease of entry and low requirements for education, skills, technology, and capital. The majority of people, however, enter the informal economy not because they want to, but because they need to survive and have access to basic income-generating activities (International Labor Organization, 2014). One of the main characteristics of the informal sector that has contributed to its growth is a lack of entry barriers. Anyone who wants to work in the informal sector can find work and earn a living (Migiro, 2017). However, the city's development has been hampered by the fact that the informal economy is unregulated. To achieve long-term development of the city's economy and services, the municipality must

work with the informal sector, create services to support, monitor, and regulate informal activities, and simplify the registration process. More information about the sector's needs, obstacles, and behaviors is required in order to create an effective legal framework for informal activities (Heinonen, 2008). A proliferation of informal activity in an economy reflects systemic failures, leading to weak institutions, endemic corruption, and large bureaucratic obstacles (and high entry barriers) to formal activity (Narula, 2020). Thus, this study was proposed to explore the research gaps on the varying results on the factors of informal sector engagement and the effects of the informal sectors to local development.

### **Research Objective and Questions**

This study aimed to document the effects of the informal sectors to local development.

Specifically, it aimed to answer the following questions:

1. What is the profile of the respondents according to:
  - a. socio-demographic characteristics
  - b. informal-sectoral characteristics
2. What are the factors affecting the engagement of the respondents in the informal sector?
3. What assistance do the informal sector receive from the city government?
4. What are the perceived effects of the informal sector to local development?
5. Is there a significant association between profile of the respondents and the factors affecting their engagement to informal sector?
6. What proposed policy may be recommended to manage the informal sectors?

### **Hypothesis**

There is no significant association between profile of the respondents and the factors affecting their engagement to informal sector.

### **Significance of the Study**

This study will provide insights to any concerned government agency towards the management of the informal sectors in Tuguegarao City. In like manner that informal sectors may benefit on the results of the study as the data that will be gathered from them may be used to manage their existence and engagement in the economy towards local development. The researcher may benefit on the results of the study as her reference in teaching economic-related facts on informal sectors and local development. Future researchers may likewise be benefited on the results of the study as this will serve as an additional literature on a similar and related future studies. Similarly, this research will provide an in-depth study and documents on the respondents' socio-demographic profile and informal-sector profile, the factors affecting their engagement in the informal sectors, and the assistance that the respondents receive from the city government and their perceived effects to local development, all this information may be useful for a particular agency in the government in developing a framework for establishing policies for local development.

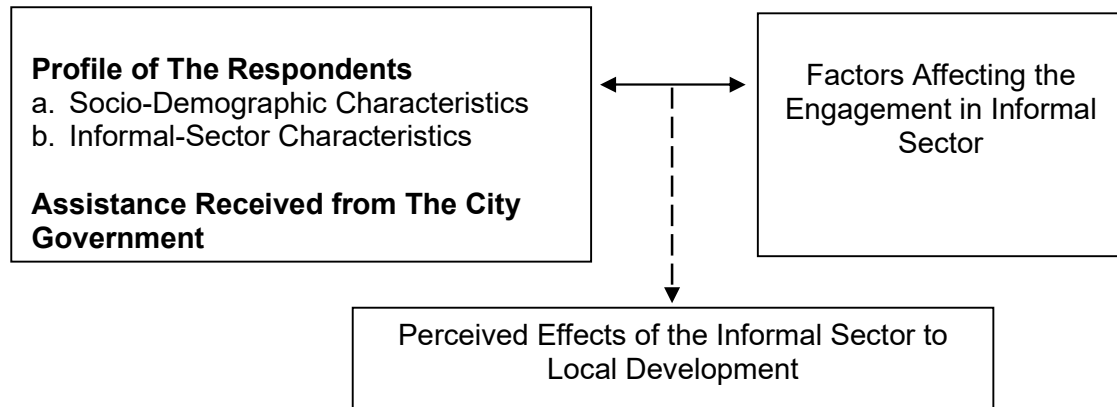
### **Underpinning Theory**

There are numerous schools of thought and theories explaining the origins of the informal sector, according to Migiro (2017). According to dualists, people working in the informal sector are excluded from current economic opportunities due to an imbalance in the growth of modern industrial jobs and population, as well as a mismatch between job seekers' skills and the structure of current economic communities. Furthermore, legalists believe that the hostile legal system led the self-employed to prefer operating informally with their legal customs, whereas voluntarists believe that entrepreneurs working in the informal sector chose to work informally after weighing the costs and benefits of doing so versus doing so formally. Meanwhile, structuralists believe that the nature of capitalist growth is what drives the informal sector, particularly attempts by formal firms to reduce labor costs with the primary goal of increasing competition, as well as formal firms' responses to organized labor global competition, state regulations, and the industrialization process (Migiro, 2017).

## GRADUATE SCHOOL RESEARCH JOURNAL

These concepts about informal sector were considered in the study as the study revolves in documenting both the socio-demographic and informal-sectoral characteristics of the respondents, the factors affecting their engagement in this sector and to determine the significant association of these variables.

### Research Paradigm



**Figure 1. Paradigm of the Study**

The paradigm shows the various variables in determining the perceived effects of the informal sectors to local development. It further shows how the profile of the respondents which includes the socio-demographic and informal-sector characteristics be associated in the factors affecting their engagement in the informal sector.

## METHODS

### Research Design

The study used mixed-method of research employing both quantitative and qualitative research designs to determine the effects of the informal sector in

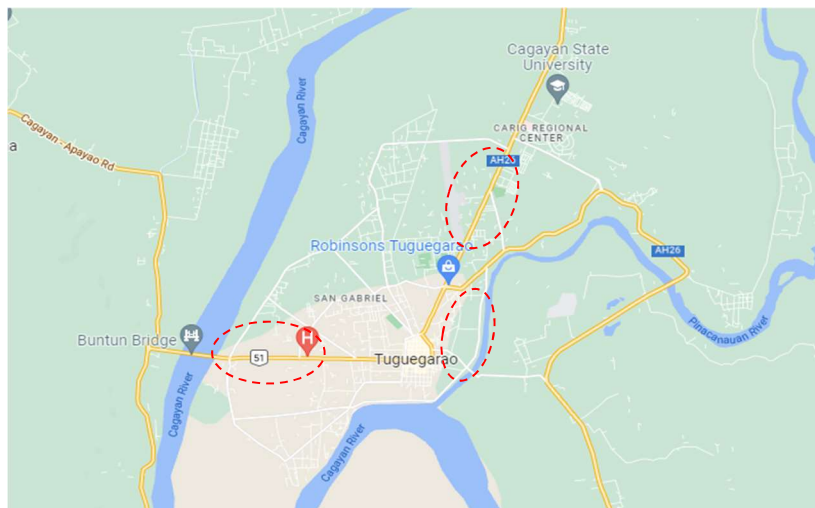
## GRADUATE SCHOOL RESEARCH JOURNAL

the local development. Specifically, for the quantitative type of research, it utilized both descriptive and correlational methods to determine the profile of the respondents which includes their socio-demographic and informal-sector characteristics, the factors for their engagement in the informal sector and the assistance they receive from the city government, and significant association between profile of the respondents and the factors for their engagement to informal sector.

Meanwhile, for the qualitative research, it employed basic qualitative research by Meriam and Tisdell (2016) to determine the perceived effects of the informal sectors in the local development.

### Locale of the Study

The study was conducted in Tuguegarao City, Cagayan, particularly in areas where there is proliferation of the informal sectors. The researcher used triangular development strategy in identifying the locale, where strategic growth centers are located (i.e. Carig, Riverside, Buntun).





## Sources of Data

Due to the nature of the economic activity the researcher is trying to examine, it is impossible to compile a comprehensive list of businesses established informally to provide a basis for selecting a representative probability sample. Therefore, the researcher used a purposive sampling method. The researcher selected respondents of whose business is not regulated or is not registered and operating a small-scale business.

Moreover, in order to determine the perceived effects of the informal sector in local development, focus-group discussions were done among the focal persons or participants working in the Local Government Unit of Tuguegarao, Department of Trade and Industry and Department of Labor and Employment and among the informal sectors.

## Research Instruments

### *Questionnaire*

A questionnaire consisting of three parts was used in the study. The first part will be about the socio-demographic and informal-sector characteristics of the respondents and the second part is on the factors for the engagement of the respondents in the informal sector. The third part is about the assistance that the respondents received from the city government. However, in the case that the respondents cannot read and/or write or is limited in doing so, structured interview was performed. The interview guide was of the same content to that of the survey-questionnaire.

### *Focus-Group Discussion*

Focus-group discussion was conducted among the focal persons or participants who are in-charge in the informal sectors or economy from the Local Government Unit of Tuguegarao, Department of Trade and Industry and Department of Labor and Employment. In like manner, focus-group discussion was performed among some of the informal sector-respondents on their perceived effects to local development. This will serve as a verification on the information gathered from the implementers.

### *Documentation*

## **GRADUATE SCHOOL RESEARCH JOURNAL**

Documents on the programs, policies or efforts done by the Local Government Unit of Tuguegarao, Department of Trade and Industry and Department of Labor and Employment were requested.

### **Data Gathering Procedures**

The study followed a systematic process of data gathering. The questionnaire used in the study was validated by experts. After the validation of the questionnaire, it was administered to the informal-sector respondents through face-to-face. The researcher followed protocols set by the Inter-Agency Task Force for Covid-19 pandemic. And for the focus-group discussion, request letters were sent to the different agencies such as Department of Labor and Employment, Department of Trade and Industry and the Local Government of Tuguegarao. After the requests were granted, the researcher set an appointment for the interview session. The focus-group discussions were done online through Zoom and Google meet and through face-to-face. After the gathering of the needed data, the researcher summarized the data gathered ready for interpretation and analysis.

### **Ethical Consideration**

For the ethical considerations, an informed consent was sought from the respondents and participants prior the start of data gathering. Anonymity of the respondents and confidentiality of information were assured. Respondents and participants of the study were guaranteed of the confidentiality of their interviews and ensuring information emerging from the same. In ensuring rigor, the researcher went back to the participants during the focus-group discussion for the aggregated and analyzed results. This ensured that the analysis is the same with what the participants conveyed during the online focus-group discussion and face-to-face discussion. The interview transcript was only available to the researcher and to the research adviser. And at the time of conclusion of the study, all transcripts were destroyed.

## **Data Analysis**

### *Quantitative Data Analysis*

Data gathered were analyzed using descriptive statistics such as frequency and percentage for the socio-demographic characteristics and informal-sector characteristics of the respondents, factors the engagement of the respondents in the informal sectors and the assistance they receive from the city government. And Binary Logistic Regression was used for determining the significant association between profile of the respondents and the factors their engagement to informal sector.

### *Qualitative Data Analysis*

Document analysis and thematic analysis were done to determine programs, policies and/or efforts of the Local Government Unit of Tuguegarao, Department of Trade and Industry and Department of Labor and Employment and the perceived effects of the informal sectors in the local development. The researcher utilized the thematic analysis method of analyzing qualitative data by Braun and Clarke (2006) following the six steps which are familiarization, coding, generating themes, reviewing themes, defining and naming themes, and write-up.

## **DISCUSSIONS**

### **Socio-Demographic Characteristics of the Respondents**

Results reveal that majority of the respondents belong to 20-29 years old, are male, are married, and they reside in Tuguegarao City. Most of the respondents are high school undergraduate while for those married respondents, most of their spouse are high school graduates. Moreover, results reveal that the average total monthly income of the respondents is ₱18, 986. While the average number of dependents is 3, and the average number of dependents is 1. Further, results reveal that those respondents with other source of income, the average earning from the other source of income is ₱3,426. Lastly, most of the

## **GRADUATE SCHOOL RESEARCH JOURNAL**

respondents don't have any previous employment in the formal sector and most of the respondents invested in appliances, gadgets and vehicles.

### **Informal-Sectoral Characteristics**

For the informal-sectoral characteristics, results reveal that majority of the respondents are into ambulant vending and they sourced their capital from their personal savings. Meanwhile, the average number of years in the informal sector is 10years. Most of the respondents are full time in the informal sector and the average total monthly income is ₱14,425.00. This is along the level of poverty threshold in the Philippines as of 2021 which is ₱14,498.00 (Congressional Policy and Budget Research Department, 2021). Lastly, almost all the respondents viewed themselves as financial surviving while few stated that they are financial struggling and their coping mechanisms are by working harder in selling and by applying for loan/credit.

### **Factors Affecting the Engagement of the Respondents in the Informal Sector**

There are various factors affecting the engagement of the respondents in the informal sector. As enumerated, engaging in the informal sector is attributed to necessity-driven factors (push factors) or opportunity-driven factor (pull factors). For necessity-driven factors, respondents engage in the informal sector for day-to-day daily needs of the family, for the education of children, to pay debts, for self-support, there are no jobs available, for investment purposes, in order to buy appliance, furniture, and other things needed in the family and for medication of family member. For the opportunity-driven factor, respondents engage in the informal sector because it is the easiest way to earn profit, it is very easy to manage and this serves as sideline business

There are two major factors significantly impacted entrepreneurs in the informal sector. Push factors, also known as factors of necessity, and pull factors, also known as factors of opportunity (Williams, 2008; Bora, 2014). According to Williams (2008) push factors can be understood as unemployment, underemployment, and dissatisfaction with current employment. "Necessity" entrepreneurs were forced into entrepreneurship due to a lack of alternatives. These are defined as a desire for independence, self-actualization, financial benefits, and a desire to achieve a better balance between family and work obligations. Entrepreneurs seize such an "opportunity" because they want to be

## GRADUATE SCHOOL RESEARCH JOURNAL

self-sufficient or own a business. Also, Timalsina (2011) mentioned that rural migrant having low educational level and skills are forced to involve themselves in the informal economy for their scanty livelihood. People engaged in the informal economy because they can't look for a formal job to sustain their living (Elgin and Oyvat, 2012).

Also, supported by Sibhat (2014) the main reason of informal sectors to be informal is seeking of employment. This is similar to the finding of Ogbuabor and Malaolu (2013); Jie et al., (2010) that unemployment is one of the causes for informal economy engagement. Tambunan (2009) also identifying that they cannot find employment in the formal sector. The result of Willemse (2011) shows that the limited ability of the government and the formal business sector to provide sufficient employment opportunities to people in the economically active age categories is the main reasons for informal trading. Ebisa (2012) assess that informal sector is the only hope for a large number of women who are not able to find employment in the formal sector; Sibhat (2014) lack of job opportunity in the formal sector.

Moreover, economic players of informal economy are forced to participate not by choice, but more likely by necessity (Williams & Round, 2007; Pfau-Effinger, 2003). Moreover, informal economy is displayed "as a new form of work emerging in late capitalism as a direct by-product of the advent and deregulated open world economy" (Williams & Round, 2008). In this by-product understanding, informal economy is enormous in marginalized groups of western and developing nations due to weak status of formal economy (Williams & Round, 2007; Amin, et.al, 2002). Marginalized populations engage in the informal sector in order to survive in this sphere as a last resort (Williams, 2008). Thus, within market economy, informal sector exists as an opposite realm to the formal sector (Williams & Round, 2008; Round, et.al, 2008). Some workers with jobs in the formal sector also engage in informal economic activity to reduce the risks associated with formal employment (Edgcomb & Thetford 2004). For example, someone with a good-paying job in the formal sector might run an auto-detailing business in her spare time as a fallback option in the event that her formal sector job is eliminated or downgraded (Edgcomb & Thetford 2004). Push factors have overriding importance, however, the importance of pull factors shows that their relative influence is greater when income earning and employment opportunities are concerned (Bora, 2014)

Also, on the opportunity factor or pull factors, the respondents engaged in the informal sector due to ease of management and the easiest way to earn

## **GRADUATE SCHOOL RESEARCH JOURNAL**

money. Becker (2004) also identifies that the obvious benefits for entrepreneurs who operate in the informal economy are avoiding costly and burdensome government regulations as well as high and complex taxes. He also said that the reason why the informal sector is so large in developing countries is that the benefits of formality are dwarfed by its costs. Also, majority of respondents in the study of Sibhat (2014) perceived that they become informal sector because of the difficulty of entry into the formal sector that unable to fulfill minimum criteria of the sector or alternatively due to the ease of entry into the informal sector. Furthermore, informal sectors choose to participate in the informal economy because they find more autonomy, flexibility, and freedom in this sector than in the formal one. In other words, participants have the freedom of operating their own business; they have elasticity in defining hours or days of operation; they can use and develop their creativeness (William, 2007).

### **Predictors of Engagement in Informal Sector**

There are various predictors affecting the engagement of the respondents in the informal sector. The current study reveals that age, gender, number of dependents, number of dependents in school and total monthly income are predictors of engagement along necessity-driven factor such as for buying other needs, for self-support, for education of children, for paying off debts. While, civil status and educational attainment are not predictors in the engagement of the informal sector along necessity-driven factors. In details, the study implies that older respondents are more likely to engage in the informal sector in order to buy their other needs such as appliances, gadgets, etc., as compared to younger respondents. As the respondents grow older, they are more likely to engage in the informal sector due to the need of buying appliances, gadgets and others. Meanwhile, female respondents are more likely to engage in informal sector than male respondents due to self-support needs. Other than the daily needs of the family, female respondents enter the informal sector in order to finance their own needs presuming that they are also single. Also, respondents with more dependents are less likely to engage in the informal sector to buy other needs such as appliances, gadgets, etc. since this is not considered as primary needs with those families with more dependents. Having more dependents has more priority needs to consider over the need to buy appliances, gadgets, etc. Lastly, respondents who have more dependents enrolled in school are more likely to engage in the informal sector to fund the education of their children. For this reason, respondents with more dependents in school enter the informal sector in order to support the school needs of their children.

Meanwhile, results reveal that age, civil status and number of dependents in school are predictors of engagement along opportunity-driven factors such as engaging in the informal sector is the easiest way to earn profit and it serves as a sideline business. Lastly, results also reveal that sex, educational background, number of dependents and monthly income are not predictors of engagement in the informal sector along opportunity-driven factors. In details, older respondents are less likely to engage in the informal sector because it is the easiest way to earn profit, married respondents are more likely to engage in the informal sector because it is considered to be the easiest way to earn profit compared to single respondents and respondents with more dependents who are attending school are more likely to engage in the informal sector as their sideline business. This is so since engaging in the informal sector will serve as an additional source of income for those families with more dependents in school.

This finding supports Sarreal's (2019) study, which found that the significant variable for deciding to be an informal entrepreneur is necessity, with no other option for work as the primary motivation and goal of being an entrepreneur. It was also discovered that socio-demographic factors (such as age and gender) have a significant interaction effect on the relationship between urbanization and the decision to enter the informal economy. However, this contradicts the current study's findings that socio-demographic factors (such as education and marital status) have a significant interaction effect on the relationship between urbanization and the decision to enter the informal economy. Because necessity-driven entrepreneurs are the primary motivation and goal for entering the informal sector, it is recommended that the government initially focus on providing financial assistance to both existing and aspiring entrepreneurs, regardless of age, gender, or size of business. Individuals motivated by necessity (or low-income earners) enter the business world in order to survive, necessitating the use of low-cost capital to begin and eventually expand. Following that, the preceding initiatives may encourage entrepreneurs to formalize or register their businesses (Sarreal, 2019).

### **Perceived Effects of the Informal Sector to Local Development**

As defined, local development refers to participative process to address and solve a diversity of socio-economic, cultural and environmental problems with the aim of producing sustainable development and improve the quality of life

## GRADUATE SCHOOL RESEARCH JOURNAL

of the population (Jover et.al., 2016). Results revealed that there are positive and negative perceived effects of the informal sectors to local development.

Through the existence of the informal sectors, there is an employment generation. As it is a desire for any given government to achieve high employment rate, this aim is realized through the existence of the informal sectors. It can be noted that some of the informal sector respondents in the current study mentioned that they engaged in the informal sector since they cannot find jobs or there are no jobs available for them. Lack of jobs can also be attributed to slow economic activities as a result of COVID-19 pandemic which caused a lot of businesses to shut down and to temporarily close. Not finding a job can also be attributed to the qualification of the job where the respondents seem not to be qualified. Therefore, their only means is to engage in the informal sector.

At the macro level, employment refers to the application of production factors to efforts that generate income for the benefit of citizens (Atoloye, 2007). Furthermore, employment generation refers to the process of engaging the labor force in productive activities in the economy. The most desired employment condition in the economy is full employment (Yusuf, 2014). It is widely assumed that the formal sectors of developing and underdeveloped countries lack the capacity to absorb a large number of labor force. As a result, the alternative sector, known as the informal sector, has always served as a backup for the formal sector in terms of job creation. Because of the large number of workers who use this sector as a last resort, stakeholders such as the government, labor employers, multilateral agencies, financial institutions, and researchers must pay close attention to this sector (Yusuf, 2014).

Moreover, as an indirect effect of the existence of the informal sector in the economy, it facilitates the ability of the spending and consuming units to spend and consume. This is a good indicator in the economy. Since there is a good flow of spending in the economy, there are some businesses who are benefited. And the cycle continues, as there is a good business activity, this would translate to business opportunities, thus may result to generation of employment opportunities or income opportunities. The informal sector's productivity contributes immensely to the economic growth that will in turn generate employment opportunity (Yusuf, 2014). As a result, enhancing the productivity of informal traders and making them competitive is crucial as it absorbs the job-seeking and able-bodied people who in turn produce thereby



## GRADUATE SCHOOL RESEARCH JOURNAL

increasing national output and speeding up economic development (Tshuma & Jari, 2013). When looking at the issue of employment, Aswani (2007) stresses that the informal sector should not be viewed as a sector that offers jobs per se, but as one that offers income opportunities. Furthermore, it acts as a cure to many ill effects of globalization by accommodating the retrenched, uneducated, unskilled, displaced workers, etc. (Aswani, 2007).

On the other hand, with the proliferation of the informal sector in Tuguegarao City, it is perceived to positively affect the local development. The engagement to the informal sector is seen to be a sustainable source of income or has the ability to generate income. In Tuguegarao City, most of the respondents engaged in the informal sector mentioned that the factor for their engagement is due to the necessity-driven factor. This is where the respondents get the money for their day-to-day needs, for the school needs of their children and for debt payments, among many others. And the ability of the informal sector to sustain for their daily needs is a good indicator that they are at least surviving in their day to day living. Having been said this, it is a good indicator for local development since the quality of life of the respondents can be considered good. Schmögnerová (2004) considers the informal sector to be one of the primary driving forces in economic development due to its role in many developing economies such as South Africa. Other than providing income for the less educated and unskilled, it serves a variety of functions. Businesses in this sector are adaptable and can quickly respond to changing market demand and supply situations; they create jobs, help diversify economic activity, contribute significantly to exports and trade, supply raw materials to local producers, and aid in poverty alleviation (Tshuma & Jari, 2013).

In Tuguegarao City, when there was a new administration in 2022, some members of the informal sectors such as ambulant vendors, street foods vendors, cart vendors who are operating within the premises of the city were asked to participate in the general cleaning of the marketplace in the center of city. Through this activity, at some point, these informal sectors tend to participate in the community thus affecting local development. Local development may include participative process to address and solve a diversity of environmental problems with the aim of producing sustainable development and improve the quality of life of the population (Jover et.al., 2016). This activity in the city was participated into voluntarily among the informal sectors. If this activity will be done regularly, it is obvious to note that these informal sectors are participating positively in the community towards local development

Meanwhile, through the existence of the informal sectors, avenues to where income-segmented customers may have the opportunity to choose where to purchase from. In order to improve the quality of life, the ability to survive every day is a factor. Looking into the capacity and the ability of different market segments in the community, not all can afford to engage in formal sectors. There are products being sold in the informal sectors that are not provided in the formal sector, or vice versa. Also, there are market segments who cannot afford to engage in the formal sector, for this reason, the informal sectors are considered as options, if not, the only option. There are various reasons why other market segments purchase from the informal sectors. One important role played by the informal sector is the provision of cheap and low quality goods and services compatible with the incomes of the majority of the population. Informal sector activities play an important role in absolute poverty alleviation by providing additional cash income to households (Bagachwa, 2019). From a rational economic view, consumers will be more likely to engage in informal transactions if they can obtain better value for their money. As such, they will do so if they can obtain a faster delivery or provision or if the quality of the goods and services provided is better (Williams & Martinez-Perez, 2014). Therefore, consumers will continue making purchases in the informal economy as long as it is more convenient either due to a lower price or due to obtaining better value for money (i.e., faster provision and/or better quality of provision). Another explanation for consumers purchasing from the informal economy is that these transactions exist because the formal economy is flawed. It can also be argued that consumers who make purchases in the informal economy are making a rational decision because the formal market is underserved or unavailable, leaving the consumer with no choice but to engage in transactions in the informal economy (Horodnic, et.al., 2021). Furthermore, the informal sector is viewed as a breeding ground for entrepreneurship that can fuel economic growth. The informal sector has a high potential for growing microenterprises into large enterprises, acting as a growth catalyst. The informal sector also captures a large portion of the lower income class, whose informal enterprises are capable of operating profitably, thus alleviating poverty groups (Pastrana, 2009).

Meanwhile, another perceived effect of the informal sector to local development is the mandate to slowly transition these informal sectors to formal sector for various reasons. In order to achieve an improved quality of life, manner of engaging in the economy should be sound, safe and legal. According to Intenational Labor Organization (2014), by its very nature, the characteristics of

the informal economy are largely negative. It can trap individuals and enterprises in a spiral of low productivity and poverty. A coherent national strategy to facilitate transitions to formality needs to recognize that the costs of working informally are high for businesses, workers and the community. Most people working in the informal economy do not enjoy secure property rights, which deprives them of access to both capital and credit. They have difficulty accessing the legal and judicial system to enforce contracts, and have limited or no access to public infrastructure and public markets. The biggest and probably the most dominant constraint faced by the informal business sector is lack of finance which is very much needed to bear possible losses. It is difficult to obtain credit from the formal financial sector such as banks due to the lack of enough collateral (Adisu, 2006). With time, some of the small businesses grow and try to join the formal sector. However, this transition into the formal sector brings with it many constraints such as the complicated and expensive legal requirements for registration (Tshuma & Jari, 2013). Having said all these cons in doing business informally, the Local Government Unit of Tuguegarao, DOLE and DTI are working closely towards the transition of some informal sectors to formal sectors through its programs, policies and efforts being implemented in the city in order to achieve local development.

On the other hand, there are also negative perceived effects of informal sectors in local development. One of which is the unfair competition between the informal and formal sector. Formal sectors tend to feel that there is unfair competition between the informal sector as the former needs to secure permits and licenses and pay taxes while the latter can freely engage in selling without paying for regulatory fees. This may affect the local development negatively as formal sectors may choose to later engage in the informal sector when the earning capacity is at stake. And shifting from formal to informal may cause negative effect to the economic development of the locality as revenues derived from these formal sectors may be reduced. According to Levy (2008, as cited in Rothenberg et al., 2016), informal businesses typically do not pay official taxes. This is because the government cannot recognize each of the businesses that are part of the informal sector. In effect, most businesses that are unregistered tend to be free from paying taxes. On the other hand, it also affects the registered businesses. As informal businesses tend to have a lower cost (i.e., production cost), they can offer relatively lower price compared to registered businesses. In effect, there would be an unfair competition between the two (Farrell, 2004, as cited in Rothenberg et al., 2016). Lastly, it also affects the

## **GRADUATE SCHOOL RESEARCH JOURNAL**

informal business itself. Given that they do not have any license to operate, it would be difficult for them to obtain credit from banks and other financial establishments (Rothenberg et al., 2016). Meanwhile, existence of the informal sectors in the city tend to cause waste management problems. As there are some informal sectors who are not mindful of their waste. Lastly, traffic issues are also one of the negative effects of informal sectors who are operating within the city. Some are becoming unmindful of their operations especially during peak hours for as long as they are selling, they don't mind the traffic at all. Informal entrepreneurs simply need guidance and awareness.

### **Policy Recommendation Towards Informal Sector**

With the findings of the study, the researcher proposed that the local government should place informal sectors on a par with formal sectors within industrial policy. Also, proposing integration and registration, as opposed to formalization, and the provision of local government support without taxation. The government should actively champion informal sector, even though, unlike formal firms, there is likely little revenue benefit (but increased costs) to the local government in the short and medium run. Most governments around the world offer multinational enterprises incentives to engage with formal enterprises within their supply chains; these should be extended to informal enterprises, which also tend to be micro-firms. Such enterprises (formal or informal) should be aided in providing higher workplace safety standards and better worker protection, for example, by providing training or subsidizing certification. In other words, assist informal sector firms in gradually integrating some business practices in preparation for a possible slow transition to the formal sector.

### **CONCLUSION**

The study concludes that informal sectors have engaged in the informal sectors due to necessity-driven factors (push factors) and opportunity-driven factors (pull factors). Topping these factors, respondents enter informal sector in order to provide for the daily needs in order to survive, for the education of the children and for debt payments. Also, some factors such as entering the informal sector is the easiest way to earn profit and it is also easy to manage are the reasons for the respondents to engage in the informal sector. Moreover, some socio-demographic variables such as age gender, number of dependents, number of dependents in school and monthly income are predictors of engagement along necessity-driven factors. While, civil status and educational

## **GRADUATE SCHOOL RESEARCH JOURNAL**

attainment are not predictors in the engagement to the informal sector along necessity-driven factors. Furthermore, socio-demographic variables such as age, civil status and number of dependents in school are predictors of engagement along opportunity-driven factors while sex, educational background, number of dependents and monthly income are not predictors of engagement to the informal sector along opportunity-driven factors.

Lastly, the study concludes that there are positive and negative effects of the informal sector in the local development of the component city-Tuguegarao City. There are, for the positive perceived effects, through the informal sectors, there is (1) generation of employment opportunities, (2) sustainable source of income, (3) community participation and environmental responsibility, (4) market opportunities and convenience and (5) transition of informal sector to formal sector. For the negative perceived effects, informal sectors create (1) unfair competition between informal and formal sector (2) waste management problems, and (3) cause of traffic.

### **RECOMMENDATIONS**

In light with the findings and conclusions presented in the study, the following are recommended:

1. The programs and policies initiated by government agencies such as Department of Labor and Employment (DOLE) and Department of Trade and Industry (DTI) are, by its nature and essence, contributory to the local development. However, the recipients of the grants awarded by these agencies in their different programs are very limited. Thus, recommending a more encompassing scope of the beneficiaries, taking into priority those potential entrepreneurs. Further recommending for more budget from the national government towards the capacitation of the informal sector towards formalization and regulation. Formalization will be a good indicator to local development. It may also be suggested to formulate a program that is directly towards the mandate to transition the informal sector to formal sector.
2. For the Local Government Unit of Tuguegarao, the following are recommended:
  - a. Conduct a study on the landscape of the informal sector operating in the City. Information such as socio-demographic profile, their current struggles and their aspirations or intentions to transition

## GRADUATE SCHOOL RESEARCH JOURNAL

from informal to formal must be documented. Such documentation may be used in creating a more effective and efficient programs that will cater to their current needs and later contribute to the local development in tangible aspect.

- b. A feasibility study on creating a food park within the strategic area of the city may be considered. Such food park may serve as common area for the street food vendors, sidewalk vendors and other informal sectors to operate. This food park also may be an added tourist spot thus generates more income to the people and to the city as well.
- c. To study on the possibility to slowly not gradually transition the informal sector to formal sector.

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