

INFORMAL SECTOR ENTERPRISE SURVEYS

WHAT BUSINESSES EXPERIENCE

Profile of Cities in Indonesia, 2023



INFORMAL SECTOR ENTERPRISE SURVEYS

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The ISES Profiles produced by the Enterprise Analysis Unit of the World Bank Group provide an overview of key business environment indicators facing informal, unregistered businesses in each economy, often comparing several cities/urban areas within each economy. All indicators are based on the responses of businesses. To learn more about the Enterprise Analysis Unit and to obtain other profiles, please visit www.enterprisesurveys.org.

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INFORMAL SECTOR ENTERPRISE SURVEYS

Introduction to the surveys

The World Bank’s Informal Sector Enterprise Surveys are data collection efforts based on a sampling methodology and a questionnaire designed to address the challenges of measuring the activity of informal businesses, which by their nature, are absent from many official surveys and statistics. The surveys use a standardized instrument, which has been consistently implemented across several economies since 2016. The surveys are designed to be geographically representative of selected urban areas and covers all un-registered businesses within the enumerated areas. Table 1 below reports counts of total enumeration blocks in each city (each block is sized 150 meters by 150 meters), along with the number of blocks enumerated and total number of informal businesses encountered in the process.¹

The surveys focus on many aspects of the business environment that unregistered, informal businesses might face. Research is ongoing on how different aspects of the business environment impact informal businesses. One of the main aims of the surveys is to provide data that facilitates this research and that can be useful for understanding the characteristics of informal businesses, how they experience the broader business environment, and circumstances that may be particularly important to these unregistered businesses.

Table 1: Details of the surveys implementation

City	Universe of blocks	Blocks enumerated	Informal businesses enumerated
Jakarta DKI (Java)	29278	463	2986
Surabaya (Java)	15446	1144	2844
Medan (Sumatra)	13141	1158	4011
Makassar (Sulawesi)	8082	747	8325
Denpasar (Bali)	5912	500	4604
Pontianak (Kalimantan)	5322	455	3106
TOTAL	77181	4467	25876

Questions in the surveys cover a wide range of topics, including on owner demographics, business characteristics, infrastructure, workforce, operations, and business registration. This document summarizes the results of the surveys in nine cities in Indonesia, namely: Jakarta DKI (Java), Surabaya (Java), Medan (Sumatra), Makassar (Sulawesi), Denpasar (Bali), and Pontianak (Kalimantan). Figure 1 shows the number of interviews conducted with informal businesses across these cities. Each sample is representative of the informal businesses of the respective city.

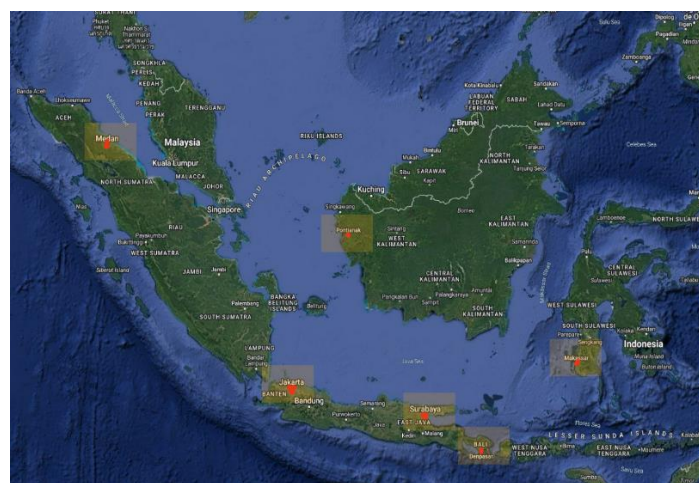
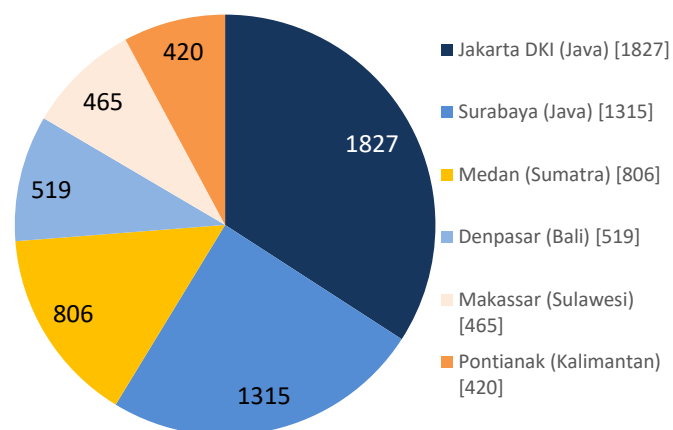


Figure 1: Number of interviews with informal businesses

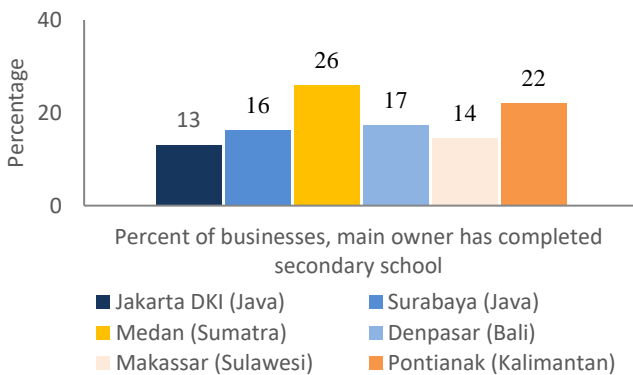


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Demographics

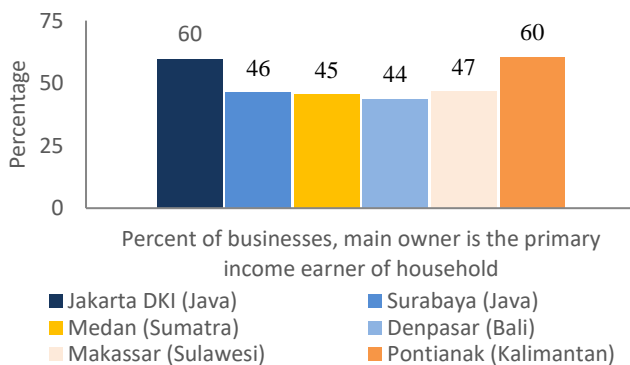
Since the operations of informal businesses are often distinctly connected to the life of the business owners, several pieces of demographic information about the (largest) owner, his/her family, and employment history are collected in the surveys. For instance, a frequent topic when studying informality is whether the owners of unregistered businesses have an education profile that may preclude them from formal work. Figure 2 shows the share of the owners of informal businesses who have at least some secondary school education or higher, across all cities.

Figure 2: Education profile of main owners



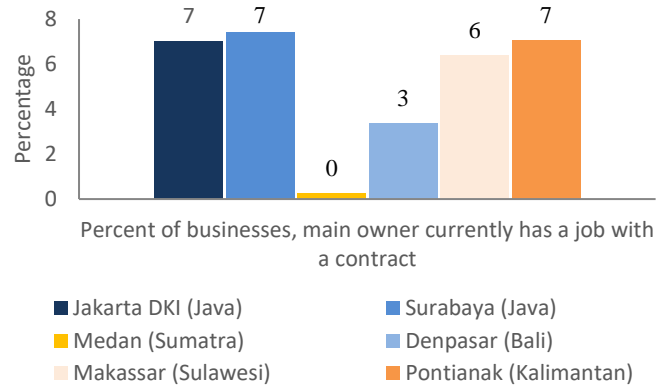
The owners of informal businesses may act in different capacities in their households; often, they are the primary income earner, in which case the operation of an informal business may have substantial consequences for the livelihood of members of that household. Figure 3 shows the proportion of informal business owners that are also the primary income earner of their household.

Figure 3: Share of main owners that are primary income earners



Being a primary income earner in the household does not directly mean that earnings from informal businesses are necessarily the primary income source for these households. Owners may also receive income from other sources, including jobs under some sort of agreement or contract, which itself can be an indication of informal business owners' access to the formal labor markets. Figure 4 reports the proportion of owners, by city, who also have a job with an agreement or contract.

Figure 4: Main owner has a job with a contract



Business Characteristics

The surveys collect several pieces of information on the characteristics of informal businesses themselves. While these businesses often co-exist and compete with formal businesses—often in similar activities or sectors—there may also be patterns of characteristics unique to informal businesses. Figure 5 shows the proportion of unregistered businesses by sector of activity.

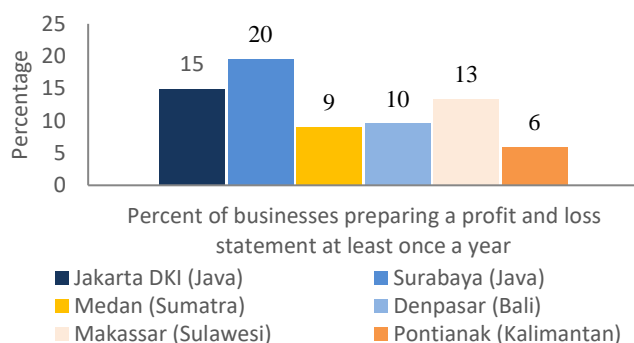
Figure 5: Percentage of businesses across sectors



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Unregistered businesses operate informally and, most likely, do not pay taxes. As a result, many informal businesses may find themselves without reasons to keep written business records, despite the possible gains from budgeting and maintaining a record of profits or losses. Figure 6 shows the proportion of informal businesses that keep written business records as an indication of this sort of practice.

Figure 6: Share of informal businesses that keep written business records



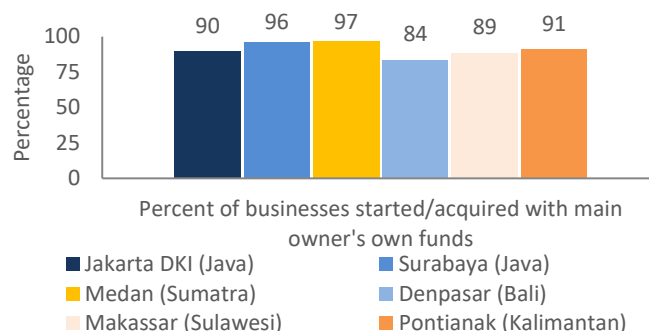
Access to Finance

Well-developed financial markets provide payment services, mobilize deposits, and facilitate funding for the purchase of fixed assets—such as buildings, land, machinery, and equipment—as well as day-to-day operations. Efficient financial markets reduce businesses’ reliance on internal funds or informal sources such as family and friends by connecting businesses that are creditworthy to a broad range of lenders and investors.

Yet, informal businesses most likely find themselves separated from access to such financial instruments, which typically are available to their formally registered counterparts. It is no surprise, as a result, that the finances of informal businesses often lie outside of such channels and are frequently inseparable from the personal finances of owners.

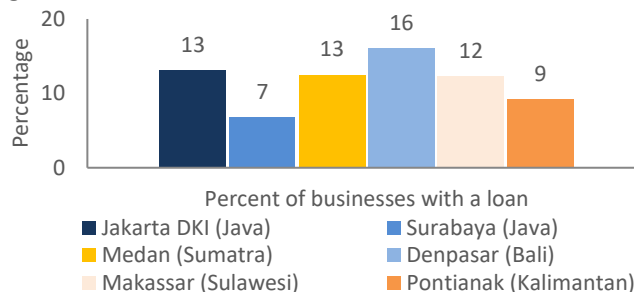
The surveys include several pieces of information on informal businesses’ access to finance. Since informal businesses may not have the same access to formalized financing at start-up, these unregistered businesses may rely predominantly on the personal funds of the owner to open a business, as shown in Figure 7.

Figure 7: Informal businesses started with owner’s own funds



Still, informal businesses may have access to a loan, either from a formal financing source or an informal one; though these loans may be taken out in the name of the business owner or are inseparable from household finances. Figure 8 gives an indication of this access to finance and shows the proportion of informal businesses with a loan.

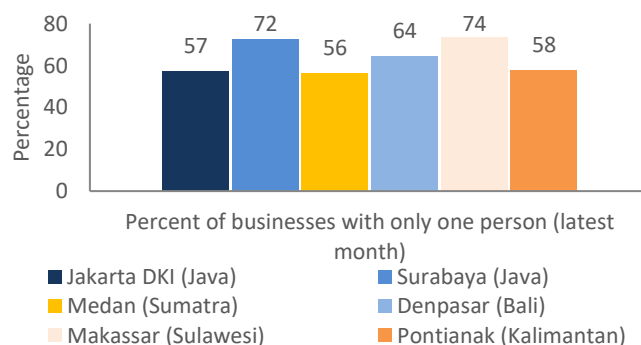
Figure 8: Share of businesses with a loan



Workforce

Informal businesses often maintain a workforce profile that is distinct in several ways. For instance, they often operate at a small scale, with many informal businesses operated by only one person. Figure 9 shows how this proportion varies across the cities included in the surveys.

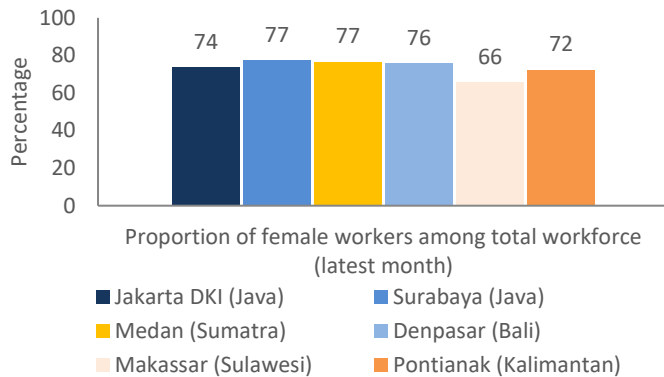
Figure 9: Share of one-person operated informal businesses



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It is not clear if one should expect the proportion of female workers in unregistered businesses to be distinctly higher or lower than the share of male workers: informal sector work may reflect gender discrimination in access to formal jobs. Additionally, the flexibility and structure of work in informal businesses may afford differing advantages that result in different proportions of workers who are female. Figure 10 shows the proportion of female workers, varying across the cities in the study.

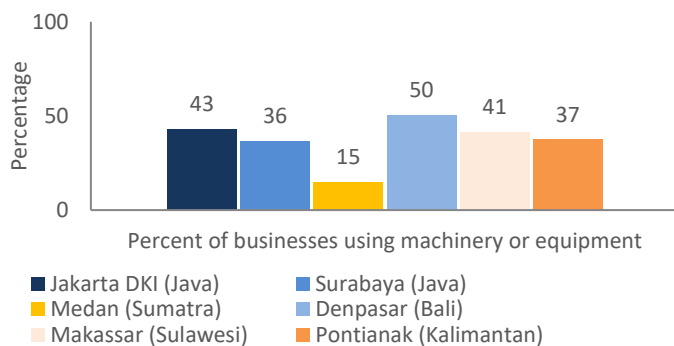
Figure 10: Proportion of workers who are female



Operations

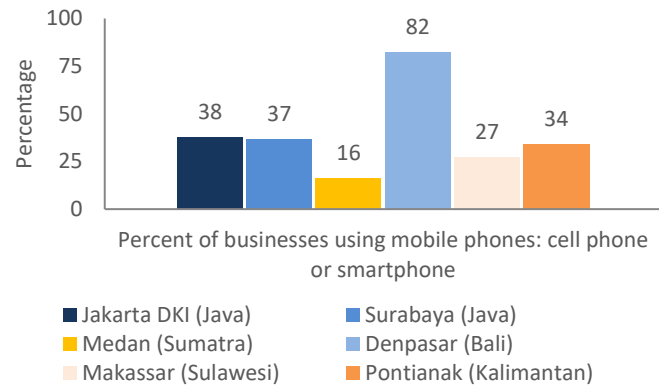
There are reasons to believe that other aspects of informal business operation will be distinct from their formally registered counterparts. As shown earlier, the profiles of informal businesses—for example in terms of their access to formalized financing—may relate to how informal businesses themselves operate. Informal businesses may report differing use of basic technologies, for instance, if they rely notably more (or less) on capital and fixed assets. Figure 11 shows the share of informal businesses that use machinery and/or equipment in their operations, across all cities in the study.

Figure 11: Use of machinery and equipment by informal businesses



The use of other technologies that can be well-suited to the operations of informal businesses may set some of them apart from other businesses. Figure 12 shows how the use of mobile/smartphones in the operations of unregistered businesses varies across cities.

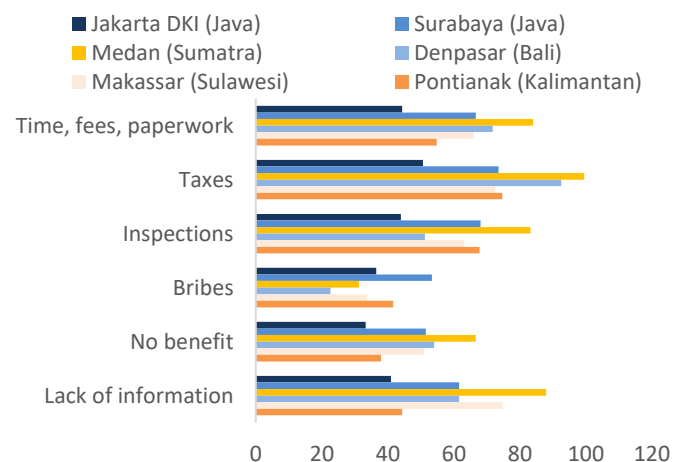
Figure 12: Use of mobile or smartphones in informal business operations



Registration

One of the key pieces of information for policymakers and researchers concerned with informality is why do these businesses remain unregistered. The structural reasons for these businesses to remain informal has been a central point of debate; the surveys provide some insight on this topic by asking informal businesses if any of several aspects are reasons to remain unregistered, as shown in Figure 13 (noting that respondents can report “yes” to more than one).

Figure 13: Share of businesses reporting having to make informal payments to remain unregistered



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Appendix

The following table reports selected indicators.

	Jakarta DKI (Java)	Surabaya (Java)	Medan (Sumatra)	Denpasar (Bali)	Makassar (Sulawesi)	Pontianak (Kalimantan)
Demographics						
Percent of businesses, main owner has no schooling	3.7	3.3	0.0	2.1	0.5	5.5
Percent of businesses, main owner has completed secondary school	12.9	16.2	26.0	17.3	14.5	22.2
Age of main owner (years)	45.3	45.5	40.9	41.5	40.6	44.3
Percent of businesses, main owner is the primary income earner of household	59.5	46.2	45.4	43.6	46.5	60.3
Percent of businesses, main owner currently has a job with a contract	7.0	7.4	0.2	3.4	6.4	7.1
Percent of businesses, main owner actively looked for a contract job in past 2 years	3.9	2.8	1.1	0.4	3.8	8.6
Business Characteristics						
Percent of businesses engaged in making goods	1.7	6.3	4.4	4.5	0.9	4.6
Percent of businesses engaged in retail (re-selling)	93.3	77.2	82.8	68.4	81.6	88.0
Percent of businesses engaged in other services	5.0	16.5	12.8	27.1	17.5	7.4
Percent of businesses operating from within household	28.4	46.7	59.4	24.4	40.4	34.9
Percent of businesses operating from non-fixed premises (including hawkers)	24.8	22.0	9.9	14.1	30.3	22.5
Percent of businesses making budget of the costs it is likely to face next year	13.3	13.0	7.5	4.8	10.1	11.4
Percent of businesses preparing a profit and loss statement at least once a year	14.8	19.5	9.0	9.6	13.3	5.9
Finance and Infrastructure						
Percent of businesses, main owner has a bank account for the business	27.0	28.6	18.1	42.1	23.5	28.0
Percent of businesses started/acquired with main owner's own funds	89.7	95.8	96.9	83.7	88.5	90.8
Percent of businesses with a loan	13.1	6.8	12.5	16.0	12.2	9.2
Percent of businesses applying for loan in past year	16.7	7.2	18.4	11.3	11.4	14.1
Percent of businesses using electricity	67.6	64.7	42.6	73.4	54.3	78.4
Percent of businesses using water	63.9	53.6	33.8	69.2	47.8	48.9
Workforce						
Percent of businesses with only one person (latest month)	57.4	72.4	56.0	64.5	73.6	57.6
Proportion of business' workers who can write	95.7	95.8	98.6	96.2	96.8	90.2
Proportion of female workers among total workforce (latest month)	73.8	77.3	76.5	75.9	65.7	72.2
Operations						
Percent of businesses reporting a profit in the past month	84.6	94.0	96.1	98.2	97.1	88.2
Percent of businesses using machinery or equipment	43.2	36.4	14.9	50.5	41.5	37.2
Percent of businesses using mobile phones: cell phone or smartphone	37.6	36.5	16.3	82.3	27.4	33.7
Percent of businesses, purchased machinery/equipment in past 3 years	21.1	20.8	9.8	19.5	18.9	22.2

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	Jakarta DKI (Java)	Surabaya (Java)	Medan (Sumatra)	Denpasar (Bali)	Makassar (Sulawesi)	Pontianak (Kalimantan)
Registration						
Percent of businesses, reason for not registering: time, fees, and paperwork	44.4	66.6	84.0	71.8	66.1	54.8
Percent of businesses, reason for not registering: taxes	50.7	73.5	99.6	92.6	72.6	74.7
Percent of businesses, reason for not registering: meetings and inspections	44.0	68.1	83.2	51.3	63.2	67.9
Percent of businesses, reason for not registering: bribes	36.5	53.4	31.3	22.7	33.8	41.6
Percent of businesses, reason for not registering: no benefit	33.3	51.6	66.6	54.1	51.0	38.0
Percent of businesses, reason for not registering: lack of info	40.9	61.6	88.0	61.6	74.8	44.3
Percent of businesses having to make informal payments to remain unregistered	3.4	5.5	1.3	1.2	4.1	0.8

1. For more details about the survey methodology, please see: <https://openknowledge.worldbank.org/handle/10986/36851>. For further information and indicators for all cities, please visit www.enterprisesurveys.org.