



# ► ILO Brief

March 2024

## Workers in the Cambodian informal economy Insights into labour statistics from the 2019 LFS<sup>1</sup>

### Key points

- **Methodology:** Quantitative analysis of 2019 Cambodia Labour Force Survey (LFS) and Socio-Economic Survey (SES) data was conducted, focusing on three key disaggregations: formal vs. informal sectors, coverage by social security (primarily NSSF), and civil vs. non-civil servant workforce.
- **Definitions:** The definition of informal employment encompasses three worker categories: employees, employers/own-account workers, and contributing family workers. Criteria for formal vs. informal jobs include factors such as social security contributions and entitlements to benefits. Informal employment extends beyond the informal sector.
- **Workers in the informal sector:** 84 per cent of non-civil servant workers are employed in the informal sector. Most Cambodian enterprises are informal, with only 3.5 per cent registered with the Ministry of Commerce. Over half of the labour force consists of vulnerable workers, including wage earners, employers, own-account workers, and contributing family workers. 70 per cent of wage earners operate work in the informal sector.
- **Workers in the formal sector:** Only 32 per cent of formal sector workers are insured under the National Social Security Fund (NSSF), indicating non-compliance with labour laws by several employers, particularly in manufacturing, other services, and construction sectors.
- **Informal employment:** Combining data from formal and informal sectors reveals alarming levels of informal employment in Cambodia, with 88.3 per cent of all workers engaged informally, down from 93 per cent in 2012. This lack of formalization leaves the majority without labour rights or social protections, exposing them to economic risks and hindering productivity and government revenue.
- **Policy updates:** In August 2023, the RGC launched a voluntary social security scheme for self-employed individuals, extending healthcare legal coverage. By January 2024, about 100,000 self-employed workers had enrolled. In October 2023, the RGC introduced the National Strategy for Informal Economy Development 2023-2028 (NSIED).

<sup>1</sup> This brief was prepared by Giulio Bordon (ILO Technical Officer in Cambodia) on the basis of the ILO forthcoming report "Extending social protection for workers in Cambodia" and the ILO and UNDP joint publication "[Understanding the Paths to Formalization in Cambodia: An Integrated Vision](#)". The reports and this brief are published within the ILO-EU project "Advancing Social Protection in Cambodia", and the ILO project "Promoting the Transition to Formalization through Integrated Approaches in Cambodia". The contents of the publications are the sole responsibility of the authors and do not necessarily reflect the views of the European Union.

## ► Methodology

We conducted quantitative analysis of the 2019 Cambodia Labour Force Survey (LFS) data; we also analyzed the 2019 Cambodia Socio-Economic Survey (SES) data for triangulation purposes, as well as to dig deeper into defined areas, such as workers' ability to pay social security contributions. The quantitative analysis applies three key disaggregations:

1. Between the "formal" and "informal" sectors for both workers and enterprises.
2. Between those who are covered and those who are not covered by social security (principally the National Social Security Fund).
3. Between civil servants and non-civil servants (with our focus being on the non-civil-servant workforce).

### Definition of informal economy indicators

The statistical definition of informal employment differentiates between three categories of workers:

1. Employees;
2. employers and own-account workers;
3. contributing family workers.

In the case of employees (wage-earners), informal employment is defined in terms of the employment relationship. According to international standards, employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, and so on).

For statistical purposes, the formal or informal nature of a job held by an employee is decided based on operational criteria, such as social security contributions made by the employer (on behalf of the employee) and entitlement to paid sick leave and paid annual leave.

Employers and own-account workers (self-employed) are in informal employment when their economic units run in the informal sector.

The **informal sector** is defined as including economic units that are producers of goods and services mainly intended for the market to generate income and profit and that are not formally recognized by government authorities as distinct market producers and thus not covered by formal arrangements. These enterprises typically run at a low level of organization, with little or no division between labour and capital as factors of production, running on a small scale, and depending on casual and family workers rather than on employees with written contracts and formal guarantees.

Within the Cambodia LFS, **workers in the informal sector** include all workers in enterprises that are not registered with the relevant authorities, and that do not keep a complete set of accounts. It excludes households that produce exclusively for their own final use, subsistence agriculture, the construction of own dwellings.

Meanwhile, **informal employment** is a broader concept reflecting the fact that **informality can exist in the formal sector**: for instance, casual, temporary, and seasonal workers who lack social protection coverage or other employment benefits, or who fall short of full legal status, may have informal employment status even when they work in the formal sector.

Workers in informal employment are thereby conceived as a diverse group, with different employment statuses (own-account workers, employers, contributing family workers, or waged workers), and working in different employment contexts (formal, informal, and household sectors), and the extent of informal employment is measured as the sum of all these workers.

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► Informality can exist in the formal sector

## ► Findings

### Workers in the informal sector

Informality is a major condition of the Cambodian labour market and enterprise landscape: of the 7.3 million non-civil servant workers, just 1.1 million works in the formal sector, while 6.1 million works in the informal sector, and just less than 0.1 million works in households. This means that 84 per cent of the non-civil servant workforce are employed in the informal sector. These figures reflect the fact that most Cambodian enterprises are informal. Nationally, only 3.5 per cent of all enterprises were officially registered with the Ministry of Commerce in 2015.

#### ► Employed population (excluding civil servants) by sector

Sector	Percentage
Formal sector	15
Informal sector	84
Households	1
Employed population	100

Source: LFS 2019.

In terms of the employment status of those of active age, some 3.2 million non-civil servant workers are wage earners (employees); while 4.1 million are non-wage earners. The latter includes 0.3 million employers, 2.9 million own-account workers, and 0.9 million contributing family workers. This means that over half the labour force are classified as being in vulnerable forms of employment.

In line with the small proportion of enterprises that are officially registered, over two-thirds (70 per cent) of wage

earners (employees) work within the informal sector. Unsurprisingly, the proportions of employers (85 per cent) and own-account workers (96 per cent) who work within the informal sector are even higher. However, this should not detract attention from the fact that almost as many wage earners are uninsured as own-account workers, indicating that informality is not restricted to self-employment and own-account work but is also associated with wage-earning employment. Contributing family workers are informal, and, importantly, women workers are more than twice as likely as male workers to be among this group.

### Workers in the formal sector

Even in the formal sector, not all workers appear to be insured: the LFS data estimate that, of the 1.1 million formal sector workers, 0.8 million (68 per cent) are not covered by social security, with only 0.4 million (32 per cent) insured under the NSSF.<sup>2</sup> These data indicate that a significant number of people working in formal enterprises are not covered by the NSSF, in contravention of the Labour Law, which implies that many employers are not complying with the law by contributing to social security. The issue seems to be particularly serious in certain sectors (manufacturing stands out, followed by “other services” and the construction sector) and suggests the need for priority attention to these sectors to strengthen compliance with social security legislation.

► 84 per cent of the workforce are employed in the informal sector

70 per cent of wage earners work in the informal sector

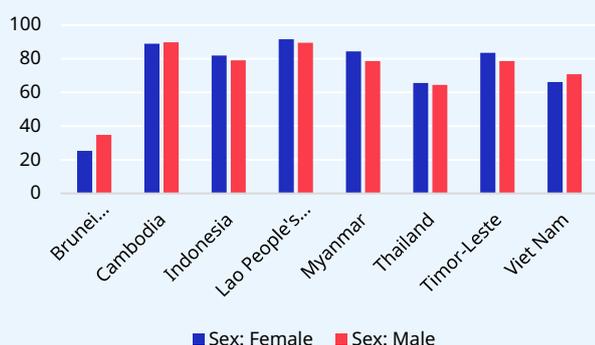
<sup>2</sup> The data presented in this report provide an estimation of the number of insured workers based on samples available from the LFS 2019. As these estimates derive from a sample survey, they do not perfectly align with NSSF administrative data. According to the LFS estimate, 456,723 non-civil servant workers were covered by the NSSF in 2019. However, according to NSSF administrative data, there were 1,324,565 active NSSF private sector members in that year. The LFS thus significantly underestimates the number of workers currently covered by social security. The differences may be explained by the underreporting of NSSF membership by LFS respondents and (or) by the sample design of the LFS.

## Informal employment

Thus, by combining the information from the formal and informal sectors, the aggregate of informal employment in Cambodia is alarming: 88.3 percent of all workers are engaged in informal employment (of these, 87.6 per cent are women), down from an estimated 93 per cent in 2012.

This high level of informality means that most workers are not covered by key labour rights or social protections, and thus are highly exposed to economic and life-cycle-contingent risks, which threatens their productivity and diminishes aggregate demand within the economy. The low level of formalization also negatively impacts government revenue through diminished social security contributions and tax receipts.

► Informal employment rate in South-Eastern Asia by sex and country (percentages)



Source: ILOSTAT database.

## Characteristics of workers not covered by social security

According to the LFS 2019, some 6.9 million workers, or 88.3 per cent of the 7.9 million total workforce, are reportedly not contributing to the NSSF behalf.

However, these aggregate figures disguise a more varied situation for women in certain sectors and across different employment statuses. Overall, a greater number of men than women are uninsured (3.6 million versus 3.3 million, respectively). This is driven by women's predominance among the workforce in the manufacturing sector (women represent almost two-thirds (64 per cent) of all such workers), and especially within the garments subsector (where they constitute over three-quarters (76 per cent) of all workers).

Across the whole non-civil servant workforce, some 48.9 per cent (3.6 million) are women. Women are slightly less likely to be working in the informal sector (47.7 per cent of all informal sector workers are women) and more likely to be formal (55.1 per cent of formal sector workers are women). Women are also much less likely to be civil servants, constituting just 32.7 per cent of the civil service workforce. They are more likely to be working in households (54.7 per cent of all household workers are women), indicating that women are over-represented there.

Not being insured by social security is related to several characteristics of workers, such as age. Older workers are less likely to be insured than younger ones. Similarly, a person's education level matters for being insured, with those with lower levels of education less likely to be insured. For example, in 2019, 70 per cent of those insured by the NSSF had a secondary education or higher, while only 44 per cent of uninsured workers did.

Income levels are significant too, with poorer workers also being less likely to be insured. For example, the LFS estimates that nearly all (99.5 per cent) of those in the bottom income quintile are uninsured, versus around 85 per cent in each of the upper three quintiles. Monthly average earnings for insured wage earners are 894,108 riels, compared to 863,107 riels for uninsured workers. Disparities in earnings are particularly marked between men and women, with women earning some 5.8 per cent less than men among insured workers, and 6.6 per cent less among uninsured workers. Findings show that almost as many wage earners are reportedly uninsured as own-account workers. This indicates that informality is not restricted to self-employment and own-account work but is also associated with wage-earning employment.

Informality is not restricted to self-employment, but is also associated with wage-earning employment

## Ability to contribute to social security

The Cambodia SES thus allows us to look at ability to pay, notwithstanding the notable limitation that income data are only available for employees, but not for employers or own-account workers. This means that we can only assess ability to pay for employees (not for the self-employed) by relying on several assumptions.

We find that some 52.4 per cent of employees could afford to contribute to social security although this differs by economic sector. Wage earners in construction, manufacturing and public administration sectors are the most likely to be capable to contribute to social security, opposed to domestic, agricultural, and retail workers.

These results do not account for the instability of employees' income, which also may pose challenges to being able to make regular contributions at the required periodicity. The above analysis also indicates that debt relief or restructuring may be required to remove or lower the financial barriers that hinder workers' capacity to contribute to social security.

## Other barriers to accessing social security

Beyond ability to pay, other factors can also affect whether workers affiliate with the NSSF. Factors that may influence their decision in this regard could include the perception that the value of affiliation does not justify the cost, which may in turn be due to a combination of either a lack of knowledge about the nature and value of the benefits provided, a lack of trust in the system to deliver the given benefits at the agreed cost, and/or questions as to whether the benefits meet the needs and priorities of members. Lack of access could also be due to the lack of relevant identification documents and other administrative barriers.

A study by Oxfam<sup>3</sup> looking at the contributory capacity of workers in the informal economy found that knowledge and awareness about social security benefits and obligations was a major barrier. Close to two-thirds of respondents were not aware of the NSSF at all, and there were very low levels of knowledge about aspects such as how to register, the available schemes, the contribution amount, the contribution process, the benefits of membership, and the procedures for claiming benefits.

These issues are conditioned and compounded on the supply side by capacity and other constraints within the NSSF and other related government organizations and institutions (including the legal and policy framework). Supply-side limitations include:

- ▶ limited administrative and technical capacity;
- ▶ weak inter-ministerial coordination;
- ▶ low capacity and knowledge of enterprises regarding registration and compliance;
- ▶ low or conflicting incentives to register and comply;
- ▶ complex and burdensome administrative procedures;
- ▶ Weak enforcement of compliance.

<sup>3</sup> Oxfam. 2022. Study Report on Contributory Capacity of Informal Economy Workers to National Social Security Fund.

## ► Implications for policy

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### Recommended strategies for addressing informality in Cambodia<sup>4</sup>

Addressing informality requires coordinated strategies, including removing barriers to formalization, providing incentives, and implementing business environment reforms as outlined in the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

There are numerous possible policy options in Cambodia that could form part of an integrated approach to encourage micro and small enterprise formalization as well as increasing NSSF coverage. One of the first steps to developing an integrated approach is to agree on a shared concept of formality, which is an important foundation for government-wide collaboration.

Informality should be viewed as including any worker or enterprise that does not fall within or is inadequately covered by the formal legal framework outlined above. A simple and well-conceived strategy incentivizing micro enterprises to become and remain formal is essential for bringing these enterprises and their workers into the legal fold and should be complemented by increased communications efforts or a formalization campaign.

Enforcement is also an essential part of any integrated strategy to address informality because it incentivizes compliance with the law. However, given differences in enterprise characteristics, a one-size-fits-all approach to enforcement is not right. Large enterprises have greater financial and human resources needed to follow the law, so a more traditional enforcement approach is probably appropriate. However, micro enterprises may not even have a clear formalization framework, and as such need a much different enforcement approach. For them, enforcement should follow clarifications to the legal framework, and start with a more remedial and education-focused approach before moving to a system that relies on increased penalties for repeat or egregious violations.

These efforts could be complemented by other strategies to address the transition to formality, including enhanced inter-ministry cooperation and information sharing. Specifically, this could include greater sharing about registration, licensing and permitting (especially of micro enterprises) between the OWS and other government entities such as MoLVT and NSSF. Enhanced coordination with MoC and GDT may also be beneficial. These efforts could be complemented by improving public awareness about formality generally, and NSSF specifically. Government efforts to encourage formalization could be aided by partnerships with business and worker unions and associations, assistance to help own-account workers develop representative organizations, and enhancements in the role of informal economic actors in social dialogue.

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► The ILO's Recommendation No. 204 (R204) encompasses 12 guiding principles aimed at supporting the formalization of the informal economy, promoting the economic inclusion of workers, recognizing the fundamental rights of workers, and fostering an entrepreneurial spirit as well as contributing to decent work, social dialogue and civic participation.

<sup>4</sup> Recommendations extracted from the ILO and UNDP joint publication "*Understanding the Paths to Formalization in Cambodia: An Integrated Vision*".

## Extension of social security to the self-employed and the National Strategy for Informal Economy Development 2023-2028

In August 2023, as a measure to extend social security access for workers in Cambodia, the Royal Government of Cambodia (RGC) and the National Social Security Fund (NSSF) have launched a voluntary social security scheme for the self-employed. This scheme extends healthcare coverage to self-employed individuals and dependents of NSSF members, aiming to achieve comprehensive social security coverage for all Cambodian citizens. The scheme's implementation is a significant step towards closing gaps in population coverage and services, promoting inclusivity in Cambodian society. As of January 2024, the voluntary scheme had enrolled about 100,000 self-employed workers or 3.5 per cent of the 2.9 million self-employed Cambodians.

Alongside the extension of legal coverage to the self-employed, in October 2023, the RGC launched the National Strategy for Informal Economy Development 2023-2028 (NSIED). Learning on the lessons drawn during the COVID-19 pandemic, when the Cambodian government found challenges in providing support to the economic units and workers in the informal economy, this strategy recognizes the needs to promote the implementation of structural reforms. Thus, the NSIED recognizes the transition to formality as an untapped potential for contributing to the promotion of the national economic development, as well as an instrument to ensure inclusiveness and resilience to crisis.

In order to tackle the challenges and move towards achieving its vision, goal and objectives, the NSIED identifies five strategic priorities:

1. Identifying, reviewing, and setting up mechanisms to facilitate access to the system.
2. Cutting down the burden of compliance.
3. Offering protection and support to those who have entered the system.
4. Promoting capacity building and support for those who have entered the system to grow and are able to fully participate in the system economy.
5. Strengthening and expanding the dissemination and strategies of the Royal Government and raising awareness of policies and benefits of entering into the system, as well as promoting the engagement of all stakeholders.

As of February 2024, the NSIED has been transferred to the Ministry of Industry, Science, Technology, and Innovation (MISTI) in anticipation of its implementation.



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### Contact details

International Labour Organization  
Joint Programme Office of Cambodia  
Phnom Penh Center, Building D, Corner  
Street 274 and 3, Phnom Penh  
Cambodia

T: +855 23 220 817  
E: [phnompenh@ilo.org](mailto:phnompenh@ilo.org)  
W: [ilo.org/asia/projects/WCMS\\_908861](https://ilo.org/asia/projects/WCMS_908861)  
[ilo.org/asia/projects/WCMS\\_908610](https://ilo.org/asia/projects/WCMS_908610)

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