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Master's Thesis of Public Administration

**Decent Employment Issues of Informal
Workers in Mongolia**

- Transition from the informal to the formal sector -

몽골의 비정규직 노동자의 양질의 고용문제

비공식 부문에서 공식 부문으로 전환

February 2023

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Decent Employment Issues of Informal Workers in Mongolia

- Transition from the informal to the formal sector -

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October 2022

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Abstract

Decent Employment Issues of Informal Workers in Mongolia

- Transition from the informal to the formal sector –

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This study examines the factors that influence informal workers' interest in formalization. Policy directions for reducing informality and improving decent work were proposed, based on the main concepts of the theory of informal employment, the International Labor Organization's strategy for "Transition from the Informal to the Formal Economy Recommendation," and research results. To examine this question, this study uses survey data from the Research Institute of the Labor and Social Protection of Mongolia, in cooperation with the International Labor Organization in 2021, as its primary data source. The findings show that legal knowledge about employment laws and the experience of employment support programs, the number of employees, and working hours play an important role in the interest in formalization. However, sociodemographic factors did not significantly affect it. This paper may not provide solutions to all problems, but I believe that it

will contribute to policymakers, students, and researchers in the field to better understand informal employment in Mongolia.

Keywords: Informal economy, Informal workers, Decent work, Formalization, Self-employer, Own-account worker and Working conditions.

Student Number: 2021-26055

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Abbreviations and Acronyms

CATI	Computer-Assisted Telephone Interviewing
CSPro	Census and Survey Processing System
GDP	Gross Domestic Product
ILO	International Labor Organization
NGO	Non-governmental organization
NSO	National Statistics Office
OECD	Organization for Economic Cooperation and Development
RILSP	Research Institute of Labor and Social Protection
SDG	Sustainable Development Goals
VAT	Value Added Tax
VIF	Variance Inflation Factor

Chapter 1. Introduction

1.1. Background

Recent global employment trends show rising levels of informal forms of employment in developed countries, and persistent poverty and informality in employment in developing and emerging economies. Two billion people in the world are working informally today. It accounts for more than half of the world's workforce and more than 90% of micro and small enterprises. Most of the workforce in developing and underdeveloped countries work in an informal economy. These people's basic rights to work, as stipulated in the United Nations Universal Declaration of Human Rights, continue to be violated every day.

As defined by the ILO, the term “informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements in the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). More specifically, the characteristics of informal employment include limited or no access to social protection and labor rights, frequent unsafe and poor working conditions, and low pay and productivity. As a result, compared to those in regular employment, informal workers endure higher levels of working poverty and insufficient access to decent work. Therefore, while supporting the transition to the formal economy, the issue of protecting workers in the informal economy should not be overlooked.

There are extremely few options for those who work in the informal sector to take advantage of and exercise their fundamental labor rights. For instance, many rights are violated, such as joining a union and collective bargaining, eliminating forced

labor and child labor, being free from discrimination, harassment, and violence in the workplace, and ensuring workplace conditions and safety.

The way to ensure these rights is decent employment for all, which means that work that is productive, has adequate wages, provides job security, is included in social protection for the family, supports individual voice and freedom, participates in making decisions affecting one's own life, and provides equal opportunities to men and women.

Thus, the International Labor Organization defines Transition from the Informal to the Formal Economy as the main way to ensure the basic labor rights of informal workers. The Recommendation on the Transition from the Informal to the Formal Economy, 2015 (No. 204) was adopted by the International Labor Organization (ILO) in 2015, which is the direction for the development and implementation of policies and measures aimed at protecting the rights of everyone working in the informal economy and supporting the transition from the informal sector to the formal economy.

As defined by the International Labor Organization, Formalization is not an end, but a necessary condition for achieving a very important goal. Formalization creates the conditions for increased decent employment, reduced poverty, and greater equality. Formalization of enterprises, including increased productivity and improved access to markets, provides the basis for adequate labor and social protection conditions for their workers. At the macro level, formalization is generally beneficial in terms of increasing the scale of government operations, especially

increasing public revenues. Therefore, formalization is also a fundamental condition for achieving a few SDG targets, including 1, 5, 8, 10 and 17. ¹

1.2. Statement of the problem

In Mongolia, privatization occurred in 1990 as a result of the country's shift from a centrally planned to a market economy, and informal employment grew significantly. Mongolia has a combination of urbanization and nomadic livelihood. Additionally, Mongolia's economy experienced a period of rapid collapse. The second decade of the 21st century saw a slowdown in the remarkable economic development of the first ten years. The yearly growth rate of labor productivity has dramatically decreased since 2012, and between 2006 and 2016, the share of informal employment in the non-agricultural sector doubled from 12.7% to 26.3%. Moreover, more than 25% of formal businesses are temporary or seasonal (ILO, 2016). Also, the extreme climate and vulnerability to natural disasters greatly affect the livelihood of herds and herders, and as a result, migration from rural to urban areas continues to intensify. This is another condition for expansion in the informal sector.

Like developing nations, the informal sector has since taken over as the primary source of employment and revenue in Mongolia. According to recent studies, the informal sector significantly contributes to the GDP and employment in Mongolia. Informal economy size 15.1% of GDP in 2021.² The NSO of Mongolia estimates

¹ ILO, Transition from the informal to the formal economy – Theory of Change, February 2021

² Quarterly Informal Economy Survey (QIES) by [World Economics](#), London

that proportion of informal employment in total employment was 44.1 percent in 2019.³

The average level in Asia and the Pacific is the second highest (68.2%), ranging from 21.7% in developed nations to 71.4% in developing and emerging nations. Japan is below 20.0%, the Republic of Korea is slightly higher than 30.0%, and Bangladesh, Cambodia, India, Laos, and Nepal are 90.0% or higher.⁴

Mongolia has a working-age population of about 2.1 million, of which 56.9 percent is the labor force. This means that about 900,000 people are out of the labor force. 46 percent of the 1.2 million working people, or 480,000 people, are employed in the informal economy, which means that they do not have a labor contract, do not receive social insurance, and are likely to violate labor standards. In addition, youth unemployment is 2.5 times higher than the national average, with one in five young people not working, which is another challenge to expanding the informal sector. A major policy challenge is that labor standards differ significantly between the formal and informal sectors. A 2016 labor rights survey conducted by the National Labor and Welfare Committee showed that informal practices are widespread among SMEs. Especially young and female workers, not being able to get paid for their work, making arbitrary hiring and firing decisions, working long hours, violating labor standards but not reporting them to government agencies, etc.

Since joining the International Labor Organization in 1968, Mongolia has joined 21 conventions (all 8 fundamental conventions, 2 governance conventions, 11

³ NSO, Labor force survey, 2019

⁴ OECD/ILO, 2019, Tackling vulnerability in the informal economy, page 28

technical conventions) and has implemented many labor standards. International labor standards are a means by which the government develops and implements labor laws and social policies using internationally recognized standards based on consultation with employer and employee representatives.

While this has achieved considerable success in the areas of forced labor, child labor, non-discrimination, freedom of association, collective bargaining, occupational safety and health, it still tends to be implemented only in the official sector.

Workers in the informal sector continue to violate minimum labor standards compared to workers in the formal sector. For example, workers in the informal sector do not sign formal employment contracts with employers, and 75.5 percent do not have employment contracts or only work with employers through verbal agreements.⁵

Informal workers are working longer hours than workers in the formal sector. They work an average of 58.1 hours per week, which is 10 hours more than the standard recognized by the ILO and 18 hours more than the amount specified in the Labor Law of Mongolia (40 hours per week).

Average wages of workers in the informal sector differ significantly by gender. The average monthly salary of female employees in the formal sector is 22.8 percent

⁵ RILSP, 2021, Ulaanbaatar, The state of Informal Employment Survey, page 15.

lower than that of men⁶, while the salary of women in the informal sector is 36 percent lower than that of men.⁷

Workers in the informal sector are more vulnerable to unexpected shocks. For example, during the Covid-19 period, the number of jobs in the informal economy has significantly decreased due to measures such as the suspension of interstate travel, border closures, and curfews.

According to the study on the impact of the Covid-19 pandemic on informality⁸, the number of jobs in the informal sector decreased by 23 percent in 2020 compared to the previous year, while the number of jobs in the formal sector increased by 11.3 percent.

In this way, informal employment has become a problem in Mongolia's labor market, and the government is paying a lot of attention to it.

In the past, several policy statements to improve labor and social protection of workers in the informal economy, and to support their employment and businesses have been reflected in various documents, namely, the State Policy on Employment for 2016-2025, the National Tripartite Agreement for 2019-2020, Three Pillar Development Policy for 2018-2020, Mongolia Vision 2050 and the Government Action Plan for 2020-2024. However, the implementation of the policy goals has been weak and not properly monitored.

⁶ RILSP, Study of wage structure–2020.

⁷ RILSP, 2021, Ulaanbaatar, The state of Informal Employment Survey, page 50.

⁸ ILO, 2022, Impact of the Covid-19 pandemic on informality: Has informal employment increased or decreased? Page 121.

Inadequate policies of the government regarding informal employment and inter-sectoral cooperation continue to have a negative impact on citizens' right to work, labor relations, social security, gross domestic product, social insurance funds, and tax revenues.

Previously, there has been an attempt to improve the livelihood of those in informal employment, as well as to lower the incidence of informal employment, through the State Policy on Informal Employment for 2006 and 2015. However, informality remains pervasive, as the recent labor force statistics shows. Furthermore, due to the restrictive measures that were put in place to contain COVID-19 in 2020, the accompanying income shocks and lack of protection make those in informal employment difficult to sustain or improve their livelihood. Households that are self-employed and dependent on agriculture have been severely affected⁹.

Informal workers are left out of social protection, labor laws and workplace safety measures. They are unregistered, unmonitored and unsecured. Therefore, there is still a need to develop and implement policy strategies aimed at them.

The core causes of informal employment must be addressed to effectively combat it. There are many factors related to the institutional and economic environment, such as the inability of the economy to create high-quality jobs, an inadequate regulatory environment, and the lack of accountability and transparency of government agencies. It is also associated with various needs related to individual

⁹ WB, NSO Mongolia, [Results of Mongolia COVID-19 Household Response Phone Survey](#) (Round 1), July 2020

characteristics and activities, many of which are influenced by sociodemographic factors.

With a view to supporting their formalization, the government plans to increase national capability in planning, executing, and overseeing specific measures to address the requirements of workers in the informal economy. Thus, the study is significant in that it is being conducted at a time when research and analysis work to develop and implement government policies and programs aimed at formalizing the informal economy, being ready for post-covid economic shocks, and creating necessary information is essential. It is also hoped that this study will contribute significantly to the existing literature by focusing more on clarifying the situation of informal employment in Mongolia and their opinions. Furthermore, I believe that the results and recommendations of this research will serve as basic information for policymakers and will have a positive impact on the work and lives of thousands of people working in the informal economy of Mongolia.

Good international practice suggests that specific groups of workers who are close to entering the formal economy, have the capacity to pay adequate contributions, and can be relatively easily enrolled in employment-based social security programs are targeted first.

In order to develop an appropriate policy direction, it is necessary to understand the common forms of informality and the needs and interests of informal workers, as well as the differences between groups and characteristics of workers.

Based on these issues, it is necessary to study in detail what the government should do to support the transition of informal workers to the formal sector and what factors influence their interest in working in the formal sector.

1.3. The purpose of research

The main objective of this study is to identify the opportunities and ways of transitioning from the informal to the formal sector by diagnosing the interest of formalization and situation of workers in the informal economy. The specific objectives of the study are:

- To determine the main characteristics and challenges of the informal workers
- To identify and analyze the factors influencing the interest in working in the informal sector.
- To find out whether informal workers' knowledge, participation and experience of employment laws and programs affect their interest in formalization.
- Identify policy to support formalization of informal workers through employment programs and priority needs based on different contexts.

Research questions

1. What is the biggest factor influencing the interest formalization?
2. Does knowledge of, participation in, and experience with employment laws and programs positively affect interest in formal employment?
3. How do working conditions affect interest in formalization?

4. Do demographic factors influence the interest in formalization?

Hypotheses Development

The higher the level of education, the more general knowledge of informal workers about legal and policy documents tends to increase. (RILSP 2021) Therefore, one can easily imagine that knowledge of employment laws could impact an individual's working conditions because he or she could use that knowledge to demand better or at least correct treatment. Or that the participation and experience with employment programs could influence interest in formalizing.

Hypothesis 1 (H1): Knowledge of employment laws and programs positively impacts an informal worker's interest in transition to an informal economy.

Only more than one tenth of informal workers participated in projects and programs to support employment. And one in twenty employees were involved with employment programs. Participation in employment promotion projects and programs is positively correlated with knowledge and information about employment promotion programs. (RILSP 2021)

Hypothesis 2 (H2): Experience in employment programs is likely to positively influence interest in formalization.

The number of people who participated in employment promotion projects and programs is small, most of them answered that the projects and programs achieved the expected results. The most frequently mentioned benefits were the expansion of work and services and increased sales. Most of the people who did not participate in employment support projects and programs said that it was because they did not

receive information, while about a fifth said that they did not meet the requirements. This lack of information tended to be higher for people with lower educational levels. (RILSP 2021)

In the informal sector, mostly low-educated workers are working. When informal employment opportunities are open mainly to low-educated workers, the hidden activity reduces the interest in higher education.¹⁰ (Kolm and Larsen 2016)

Hypothesis 3 (H3): As the level of education increases, it is more likely that the interest in transition to the formal sector will increase.

Informal workers lack flexibility and regulation of working hours (Clark and Cooling, 2017; McKay et al., 2012). On average, informal workers work 6-7 days a week and work extended hours. On busy nights, the reported sleep time varied between 6 (1.4) and 7.2 (1.9) hours.¹¹ Workers in the informal economy work in harsh and dangerous working conditions. Working hours are an important element of any work system, a condition that is violated in most informal employment. This affects their ability to work and can lead to accidents, health, and social problems.

Hypothesis 4 (H4): The working hours of informal workers have a positive effect on their interest in formalization.

¹⁰ Kolm, As, Larsen, B. Informal unemployment and education. *IZA J Labor Econ* 5, 8 (2016).

¹¹ Jonathan Davy, Didintle Rasetsoke, Andrew Todd, Tasmi Quazi, Patric Ndlovu, Richard Dobson & Laura Alfes, 2018, Analyses of Time Use in Informal Economy Workers Reveals Long Work Hours, Inadequate Rest and Time Poverty, Proceedings of the 20th Congress of the International Ergonomics Association (IEA 2018) pp 415-424

Taxes and social security contributions are the most difficult to transition to the formal economy. Exemption from income tax and VAT for a certain period, concessions on workplace rent, low-interest loans to support micro-businesses, and the opportunity to participate in government procurement will be incentives to register your business. (RILSP, 2021) According to the results of the previous research, issues related to taxes, insurance and finance are the most sensitive issues of informal workers. It is related to business activity, scale, number of employees, and income. As the number of employees increases, the scale of operations and income can increase. To this extent, the need for social security of workers may increase and the probability of compulsory insurance may increase. Hence, the following hypothesis are made.

Hypothesis 5 (H5): The number of employees has a positive effect on the interest in formalization.

In all regions, the share of informal employment in informal employment is higher for women than for men. Furthermore, in most developing regions, the employment rate of vulnerable groups is higher for women than men. Conservative gender norms do not allow women the same opportunities as men. Such norms limit girls' and women's physical mobility, education, economic assets, and opportunities. Although women can combine both home-based and market work, such as raising children and taking care of the household, they prefer to work at or near their

homes.¹² Also, girls and women over 15 years of age spend 19.1% of their time on unpaid care and housework, while men spend 5.8%.¹³

Informal employment is directly related to gendered indicators of employment, gender differences in education, skills, land and asset ownership and rights, and the fact that in most countries' women are the primary caregivers (Holmes and Scott 2016). In many cases, such inequality is the result of discrimination and gender stereotypes. These factors contribute to the fact that women are more likely than men to work informally in most regions of the world. In addition, informally employed women are more likely to work in precarious, low-paid jobs, housework, and unpaid household chores (Lund 2012).

Hypothesis 6 (H6): Women working in the informal sector are likely to be less interested in moving into the formal sector.

Urbanization followed the increase in population, and more people relocated from rural to urban areas in search of better economic opportunities. Even in cities, the scale of the formal sector is limited, so people are forced to engage in some activity in the informal sector. Due to insufficient labor demand in the formal sector of the economy, excessive quantities of available labor could not be absorbed into the labor market (Portes and Schauffler, 1993).

Hypothesis 7 (H7): The interest of informal workers in local areas to work in the formal sector is likely to be worse than that of urban workers.

¹² Naoko Otobe, Gender, and the informal economy: Key challenges and policy response. EMPLOYMENT Working Paper No. 236, 2017, page 19.

¹³ UN, Country profile, <https://data.unwomen.org/country/mongolia>

Many informal workers face income insecurity and income poverty in old age, because of insufficient pension coverage. Pensions are crucial to ensuring income security after retirement. Pensions are crucial for providing security. According to ILO estimates, 68% of people over retirement age get an old-age pension globally. This statistic reflects a rapid expansion of social pensions that are tax-financed and both contributory and non-contributory in developing and emerging nations. However, just one-third of people who are of pensionable age receive a pension, and many people's benefit amounts are insufficient. Workers in the informal sector are particularly vulnerable. (ILO, 2017). Therefore, the longer the workers in the informal sector work and the older they get, the more interested they may become in formalizing their business and working in the formal sector to prevent future risks. Based on this statement, Hypothesis 6 and Hypothesis 7 are developed.

Hypothesis 8 (H8): As the age of workers in the informal sector increases, their interest in formalization will increase.

1.4. The outline of research

Following the introduction, Chapter 2 provides a literature review, theoretical background, conceptual framework, and definition of terms in the informal sector and the transition to formal employment. Chapter 3 reviews the research design. Chapter 4 reviews empirical analyses, including descriptive statistics, correlation matrix, and logit regression, and discusses the ILO's theory of the changing approach regarding formalization policies and measures. The final section presents the conclusions and policy recommendation.

Chapter 2. Literature Review

2.1. Literature review

After the 104th session of the International Labor Conference adopted the Recommendation on Transition from the Informal Economy to the Formal Economy in 2015 (No. 204), countries have been studying the formalization of the informal sector in their own contexts, which contributes significantly to the previous literature review. Looking at previous studies, many different ideas have been put forward in different contexts.

Obviously, industry and economy have been based on traditional informal employment since the dawn of human society. But in 1971 British anthropologist Keith Hart first introduced the term "Informal Sector" into research circulation. Hart's main contribution to this literature was to show that informal employment is not an "army of urban unemployed created by a surplus of labor" but "has its own independent capacity". In other words, they believe that they create an underground industry and an invisible economy through informal activities.

Supporting the process of transition from the informal economy to the formal economy is not only important for ensuring access to decent and sustainable social security for the society, but also contributes to the expansion of the tax fund and the creation of fiscal space necessary for the implementation of fair and effective government policies (IMF 2017; Gaspar, Gupta, and Mulas-Granados 2017). Thus, while the informal economy is a necessary phenomenon for a developing country, it absorbs a lot of labor force and is economically beneficial, but some of the researchers are against it. Specifically, lowering the cost of entering the formal sector

dramatically improves the employment structure. Making formal sector entry costs equal to those of the informal sector would increase formal employment by nearly 31% and reduce unemployment by 36%. (Ulyssea 2010)

The informal economy is a common feature of both developed and developing countries. However, the characteristics of the informal economy vary in scope and type depending on the social and economic structure of the country (Gërxhani 2004). The informal economy plays a large role in developing economies and employs almost half of the workforce (Slonimczyk 2014). Also, Latin American authors have previously argued that the main cause of the informal sector phenomenon is the result of rural-urban migration (Portes and Schauffler, 1993). The above characteristics are consistent with the current situation in Mongolia.

The ILO's policy guide on the Informal Economy and Decent Work identifies informal employment as a major challenge for many countries. Contrary to the ILO's idea that formalizing informal employment would reduce informality Polanyi (1957, 2000) argued that informality does not necessarily disappear if the spread of the formal economy faces persistent structural barriers. He said that the informal economy should be understood as a form of economy embedded in society. Therefore, formalization of the informal may not reduce informality. Thus, regardless of whether informal employment has good or bad economic consequences, the problem of decent work for informal workers remains a constant concern.

Due to the lack of data, research on the informal economy of Mongolia is rare. The first major study was Anderson's 1998 study of the informal sector in Ulaanbaatar. One of the most obvious manifestations of change in Mongolia, a huge

but sparsely populated nation, has been the proliferation of informal business activity during the country's transition to a market economy. Mongolia's informal sector has grown much faster than the formal sector during the transition, largely because it is easier to enter the informal sector. (Anderson, 1998)

In 2000, Bikalis performed research on Ulaanbaatar's informal economy, which found that easy access to the sector and a weak institutional framework were the primary reason for informal employment. Morris undertook a study to examine the characteristics, obstacles, and potential of Mongolia's informal sector considering earlier research (Morris, 2001). According to the study, the decline of socialism, the emergence of new markets, a change in consumer demand, urbanization, and cultural factors all contributed to the growth of the informal sector. When Heinz studied informal employment in Sri Lanka, the Philippines, and Mongolia, it appeared that working in the informal sector was easier than entering in the formal sector (Heinz).

According to the Informal Employment Structure and Status Survey of the Labor and Social Welfare Research Institute, 61.0 percent of respondents said that they work in the informal sector due to difficulties in finding employment (RILSP 2013). In addition to these, the most innovative and key research is “Study on informal employment status” Research Institute of Labor and Social Protection, in 2021. This survey objective: To strengthen national capacity in designing, implementing, and monitoring specific measures to respond to the needs of workers and operators in the informal economy with a view to promoting their formalization. The main results of this study are as follows:

The study identified the biggest disadvantages of informal employment as follows. The main disadvantages for workers are the inability to receive social protection; unstable wages; access to health care was poor. And the main disadvantages mentioned for employers and the self-employed are income instability; not eligible for social protection; and lack of job security. (RILSP 2021) Many informal workers surveyed are interested in formalization, and financial incentives such as income tax exemptions, VAT exemptions, and social security exemptions have been identified as incentives to move to the formalization. The survey found that many informal workers do not have a formal employment contract and work longer hours than required by the Labor law. In the previous study, we regressed key outcomes of interest against sex, age group, educational level, and main activity of employment.

Based on the above literature research, I aim to study in detail the factors that influence the interest in moving from the informal sector to the formal sector, and to analyze the relationship between social demographic characteristics and knowledge and experience of the employment law and policy program in the interest in formalization.

2.2. Theoretical background

Informal economy is a complex and heterogeneous phenomenon, and the scope of scientific concepts and theories has evolved differently. As discussed in the previous section, after Hart, the theoretical literature on informality has expanded beyond economic analysis to study human behavior, social exclusion, social structure, and the role of institutions.

Based on the previous research papers, various ideas to understand the phenomenon of "Informal Sector" and its employment will be summarized in the following theoretical section. The aim is to study the informal economy in the framework of the following three theoretical approaches.

Modernization Perspective: In the second half of the 20th century, the dominant view was that the informal economy is a temporary phenomenon, a phase of economic development that will disappear through economic modernization. (Geertz, 1963; Lewis, 1959). From the point of view of modernization, the economic system is divided into two different sectors: formal and informal economy. The formal economy is seen as a flourishing phenomenon that symbolizes progress and modernity, while the informal economy is characterized as underdeveloped, backward, and traditional activities. According to the modernization theory, weak economic development and poor quality governance are the main causes of informal employment, and when the demand for labor in the formal economy is insufficient, it is believed that excessive labor cannot be absorbed into it. (Portes and Schauffler, 1993).

Neo-Marxist Perspective: Also known as structuralism, sees the informal economy as a by-product of modern capitalist restructuring rather than a surplus of the labor market. According to this view, the informal economy is a deliberate strategy used by capitalist firms to reduce costs. (Sassen 2019) Globalization is considered a key driver of the expansion of the informal economy, and a globalized economy leads to deregulation and liberalization, leading to increased informal employment (Sahu 2010, Meagher 2016) From this perspective, start-ups are likely to turn to unregistered and unregulated activities to survive. Unregistered informal

entrepreneurship is a consequence of insufficient government involvement not only in the economy but also in the social security system. (Davis, 2006; Gallin, 2001; Slavnik, 2010).

Neoliberal Perspective views excessive government intervention as the root cause of informal employment. According to this theory, the informal economy is neither a by-product of modern capitalist restructuring nor a consequence of the modern economy; but rather it is a result of excessive government regulation, which causes businesses to choose the informal economy to escape pressure. (Soto, 1989) Solutions to informal employment include deregulation, lower taxes, and less government intervention.

In addition to the above basic theoretical concepts, Roberto Dell'Anno (2021) discusses the widely studied social and economic approaches and concepts as follows.

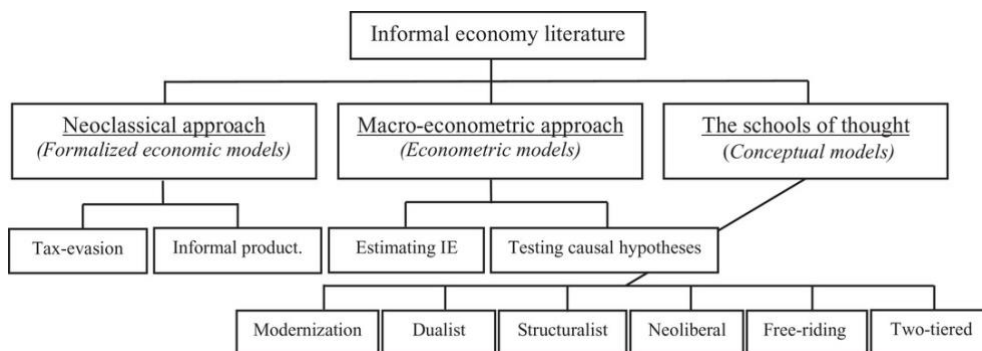


Figure 1 A roadmap of the literature in informality

Source: *Journal of Economic Surveys*, 2021, DOI: (10.1111/joes.12487)

"Neoclassical approach" holds that selection based on limited productivity and resources is what leads to informal employment. The "macro-econometric" method primarily examines the informality phenomena as a share of value added to formal GDP. "Schools of thought" stress both formal and informal interdisciplinary linkages. Additionally, he proposed a theoretical model of "Individual Choice" that would function informally by fusing the three basic informality approaches. It includes each of these three theoretical ideas. He contends that when tackling informal employment, both macro and micro level concerns should be taken into consideration. I agree with the notion that it is critical to consider the individual characteristics of businesses in addition to different institutional, social, and economic considerations.

Finally, the ILO has proposed a "Theory of Change"¹⁴ to effectively transition from the informal economy to the formal economy. This approach recognizes that different policies will be required depending on the socio-economic context, so it focuses on forms of informality and professional groups.

2.3. Conceptual framework

From the point of view of the theory of change, the diagram shows how the transition to the formal economy can provide decent work conditions.

¹⁴ ILO, 2021, Transition from the informal to the formal economy – Theory of Change

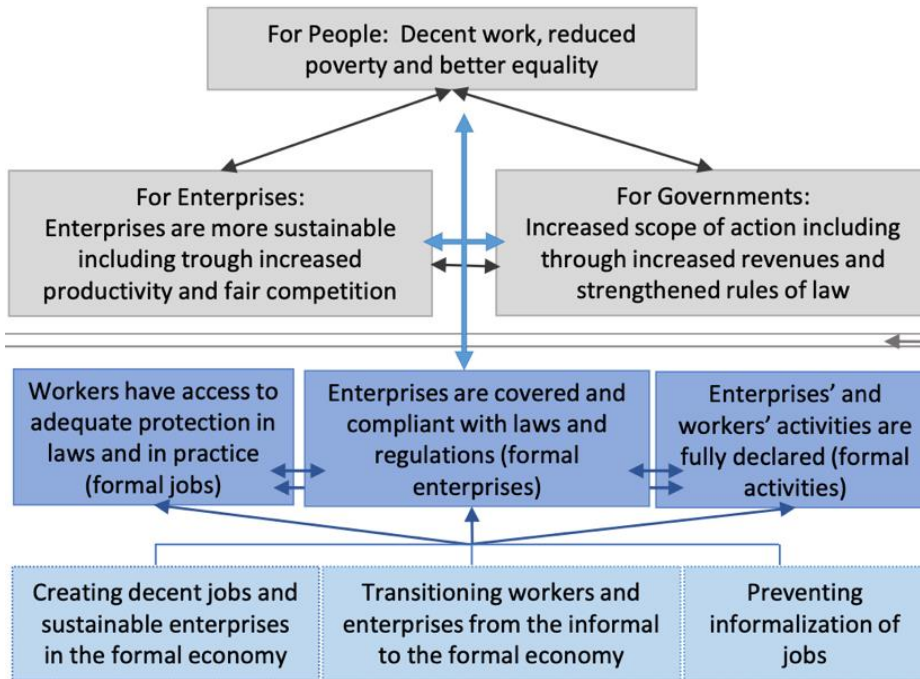


Figure 2 Transition from the informal economy to the formal economy — Theory of change

Source: ILO, 2021

When a company formalizes, it means that it is subject to regulation, with all the rights and responsibilities it entails. This involves the registration of businesses, adherence to legal requirements, and the extending of the reach of tax, labor, and social security legislation to all businesses without distinction as to size, sector, or other criteria. Whether or not a self-employed person participates in the informal economy depends on whether their business is part of the formal economy. Employees benefit from proper labor and social security because of the shift to formality.

The formalization process is not limited to covering and enforcing legislation. For example, increasing productivity is a prerequisite for formalizing micro and

small enterprises. Helping people take full advantage of risk reduction or skill development is part of many formal strategies.

A suggested course of action to facilitate the transition to formality is described in the ILO Recommendation on Transition from the Informal to the Formal Economy, 2015 (No. 204). These include enforcing tax and labor regulations, minimizing the expense and time associated with registration, encouraging the transfer to formal employment, and enhancing access to funding, technology, government contracts, and training.

Definition of terms

The term “informal economy” refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements. (ILO, 2002, p. 25).

Informal employment, as defined by the 17th International Conference of Labor Statisticians, consists of the following groups of workers:

- Self-employed persons and employers working in their own enterprises in the informal sector
- Family contributors or unpaid family members.
- Members of informal producer cooperatives.
- Self-employed people who produce goods only for the final needs of their own household.
- An informal worker (here, an informal worker is considered to be employed if the employment relationship of workers does not receive specific

employment benefits in law or practice under national labor laws, income tax, social security, or employment benefits).

- Informal workers. (Here, an employee's employment relationship is "informal" if he or she is not entitled in law or practice to national labor laws, income taxes, social security, or certain employment benefits).

In this study, the following categories of participants are considered as informal workers. It includes:

- Non-agricultural self-employed persons whose enterprises are not registered in the General State Registration Office and do not belong to the categories of state-owned enterprises, local-owned enterprises, budgetary organizations, non-governmental organizations (NGOs), and international organizations.
- Non-agricultural workers whose employer does not pay a certain percentage of pension fund or health/unemployment insurance contributions, and who do not receive paid vacation or sick leave.

Chapter 3. Methodology

3.1. Data requirement and source

This study is based on secondary sources, namely the "The state of informal employment in Mongolia" survey conducted by the Research Institute of Labor and Social Protection in 2021. In this study, a quantitative survey questionnaire was used to collect data from a random sample of informal workers in five regions of Mongolia. The random sample consisted of 3,000 respondents representing a target population of 195,000 non-agricultural informal employment.

A more detailed analysis was needed in the part of the study that clarified the difficulties and opportunities of the informal workers. To ensure the validity of the study, informal workers were identified through filter questions. The target respondent was filtered based on their activities, the type of ownership of the organization, and whether they paid taxes and social insurance.

CSPro was used for data collection, and STATA was used for data processing.

3.2. Methods of research

To test the hypothesis, the factors influencing the interest of workers in the informal sector to move to the formal sector were analyzed, and the model of increasing the interest to move to the formal sector was aimed to be established based on the logit regression model. By correlation analysis, selecting 13 variables that can influence the transition to the formal sector and evaluating binary regression, 4 variables were positively correlated, 2 variables were negatively correlated, and 7 variables were statistically insignificant.

To test the assumptions:

1. First, a correlation analysis is performed on the secondary data to determine the most relevant factors.
2. Second, to identify other independent variables that affect interest in informality.
3. To find out whether multicollinearity is present, the Variance Inflation Factor (VIF) was considered. Variance Inflation Factor is a measure of the effect of all other independent variables on a regression coefficient.
4. To explain the main results, Logit regression used to consider two possible variables (for example, "interested in formalization" or "uninterested").

Dependent Variable

The dependent variable, interest in formalization, was constructed based on the following RILSP question: “Are you interested in registering and formalizing your business or work?” If a respondent answered “yes,” then it was coded as 1. If the respondent answered “no,” then it was coded as 0.

Independent Variables

Table 3.1 presents details about how the dependent and independent variables were measured.

Table 1 Dependent and Independent Variables

№	Variables	Operationalization	Source
Dependent variable			
1	Interest in formalization	Are you interested in registering and formalizing your business or work? Yes-1 No-0	2021 RILSP
Independent variables			
2	Knowledge of employment law and policies	How well do you know the laws and programs that support employment? Poor-1, Medium-2, Good-3	2021 RILSP
3	Experience in Employment programs	Have you ever participated in employment support programs or activities? Yes-1 No-0	2021 RILSP
4	Number of workers	How many employees does your organization have?	2021 RILSP
5	Working years	How long have you been working in the informal employment?	2021 RILSP
6	Working hours	How many hours do you work on average per week?	2021 RILSP
Control Variable			
7	Gender	The percentage of male and female respondents	2021 RILSP
8	Age	Respondent's age	2021 RILSP
9	Region	Urban-0, Rural-1	2021 RILSP
10	Education	Respondent's education level None-1, Primary-2, Secondary-3, High school-4, Technical Vocational-5, Specialized secondary-6, Undergraduate and above-7	2021 RILSP
11	Income	What is the average monthly household income?	2021 RILSP
12	Number of family members	Number of household members?	2021 RILSP
13	Above 65	The number of family member, above 65	2021 RILSP
14	Under 14	The number of family member, 14 and under	2021 RILSP

3.3. Data collection

Secondary resource to collect information from a random sample of informal workers in five regions of Mongolia. Sampling data were collected using Computer-

Assisted Telephone Interviewing (CATI) instead of face-to-face interviews, considering epidemic conditions and quarantine conditions at the time of the survey. The questionnaire is designed to be simple, easy for the respondent to understand, and not time consuming.

And the self-employed, employers, and salaried workers in the informal sector have different characteristics, the appropriate place has sought to allow the questionnaire to be answered differently by the self-employed and the employee.

Chapter 4. Empirical analysis and Result

4.1. Descriptive Statistics

Within this chapter I will carry out the analysis with the description of factors of respondents' socio demographic into the simplest form of quantitative analysis.

According to the sampling design, 195,241 informal workers are represented by data from 3,000 informal workers who participated in the study and the results are presented. Tables 4.1 illustrated that of the 3000 respondents who participated in this survey, 54 percent of the respondents expressed their interest in transferring to the formal sector. The average age of the participants was 45 years, and 44 percent were male, and 56 percent were female. More than half of the respondents were from urban areas and 49.7 percent from rural areas. The mean household income of respondents was 570 USD.

One household had an average of 4.2 members, of which 1.3 were children aged 14 and under, 0.1 were eldest over 65, and the rest were of working age. When calculating the dependency ratio or the proportion of the population under 15 and over 65 years of age per 100 people of working age, based on these indicators, was 45.8. This is 13.7 percent lower than the national average.

In terms of education level, 9.9 percent of informal employment workers had primary education or less, 51.4 percent had completed secondary education, 9.8 percent have technical or specialized education, and 28.4 percent had undergraduate or higher education.

Table 2 Descriptive Statistics

No	Variables	Weight	%	M	SD	Min	Max
1	Interest in formalization						
	Yes	105664	54.1				
	No	89577	45.9				
2	Gender						
	Female	109046	55.9				
	Male	86195	44.2				
3	Knowledge of employment law and policies						
	Poor	141745	72.6				
	Medium	44424	22.8				
	Good	9072	4.6				
4	Experience in employment program						
	Yes	20949	10.7				
	No	174292	89.3				
5	Region						
	Urban	99245	50.8				
	Rural	95996	49.2				
6	Age	195241		44.9	9.1324	19	80
7	Years of informal employment	195241		11.9	7.6617	0	50
8	Income (\$)	195241		570	2293.4610	0	23,500
9	Working hours (per week)	195241		58.2	16.8229	4	168
10	Number of workers	195241		2.5	3.2539	1	70
11	Education level*	195241		4.9	1.4750	1	7
12	Family members	195241		4.2	1.4480	1	19
13	Children 14 and under	195241		1.3	1.1758	0	9
14	Above 65	195241		0.1	0.2623	0	2

**Note: The level of education is classified into the following 7 levels; None-1, Primary-2, Secondary-3, High school-4, Technical Vocational-5, Specialized secondary-6, Undergraduate and above-7*

Source: The state of informal employment in Mongolia 2021.

In addition, the participants in this survey consisted of three different employment statuses: 7.3 percent of informal employment workers were employees, 42.2 percent

were own-account workers (self-employed individuals), and 50.5 percent were employers (business owners).

The survey participants had been working in the informal sector for an average of 11.9 years, indicating that informal employment has become a widespread social phenomenon. Grouping by years of working in the informal sector, 30.5 percent of the respondents had been working in the informal sector for 16 years or more, 34.3 percent for 8-15 years, and 35 percent for up to 7 years.

Most countries limit statutory weekly working hours to 48 hours or less, as set out in the ILO Convention. However, informal workers in Mongolia work an average of 58 hours, which is 10 hours more than the established standard.

When determining the level of knowledge about the laws and activities supporting the employment of informal workers, 72.6 percent answered that they did not know, 22.8 percent knew moderately, and only 4.6 percent knew. Meanwhile, 11.1 percent of them participated in the government employment promotion program.

Also, 38.6 percent of self-employed people and employers operating informally said that they use the Internet and digital technology in their work and services.

4.2. Correlation Matrix

According to the correlation analysis, out of the total 13 variables that can affect the interest in becoming an official, 2 variables such as age and years of working in the informal sector have a negative correlation, and indicators such as gender, regional education, and the number of household members over 65 years of age are likely to be insignificant. Therefore, the results were evaluated with a linear regression model to confirm.

Correlation analysis results show that variables such as gender, region, income, and the number of household members over 65 years of age are not related to official interest. In other words, none of these variables can explain interest in formalization.

However, the number of children under 14 years of age and the number of employees had the strongest positive correlation with interest in formalization, while age and employment years in the informal sector had a negative correlation.

The age and years of employment of informal workers show a negative correlation, which suggest that the longer they work in the informal economy, the less likely they are to move to the formal sector.

However, this correlation is not statistically significant. Because a correlation analysis does not consider the effects of other control variables, a conclusion should be derived from the regression analysis.

Table 3 Correlation Matrix

№	Variables	Interest															
		in formal	1	2	3	4	5	6	7	8	9	10	11	12	13		
1	Interest in formalization	1															
2	Gender	-0.0320	1														
3	Knowledge	0.0456*	-0.0227	1													
4	Experience	0.0406*	0.0546*	0.1486*	1												
5	Region	-0.0162	-0.0892*	0.0334	-0.1473*	1											
6	Age	-0.1582*	0.0834*	0.0565*	0.0478*	-0.0691*	1										
7	Years in IE	-0.1283*	-0.0186	-0.0062	0.0487*	-0.0809*	0.4589*	1									
8	Income	0.0166	-0.0059	0.0153	-0.0341	0.0825*	-0.0920*	-0.0297	1								
9	Working hours	0.0530*	-0.0166	-0.0089	0.0217	0.0392*	-0.0218	0.0357	0.0825*	1							
10	Number of workers	0.0817*	-0.0549*	0.0567*	0.0224	0.0952*	-0.0881*	-0.0511*	0.1106*	0.0808*	1						
11	Education	0.0306	0.1133*	0.2052*	-0.0079	0.1474*	-0.1847*	-0.1371*	0.1161*	-0.0156	0.0763*	1					
12	Family members	0.0641*	-0.0989*	-0.0380*	0.0322	0.0103	-0.2034*	-0.0716*	0.0411*	0.0379*	0.003	-0.0805*	1				
13	Children 14 under	0.1047*	-0.1323*	-0.0211	0.0181	0.0591*	-0.4716*	-0.2167*	0.0485*	0.0284	0.0315	0.0678*	0.6611*	1			
14	Above 65	-0.0304	0.0076	0.0528*	-0.0148	0.0356	0.1147*	0.0134	-0.0131	-0.0316	-0.0293	0.0301	0.002	-0.0611*	1		

Note: * $p < .05$

Although, correlation matrix shows that the correlation coefficients are significantly lower than the threshold value of 0.7, except for the number of employees and children under 14 years of age. However, a variance inflation factor (VIF) test was performed because of the possibility of multicollinearity, such as age and working years. The mean VIF was 1.28 and the VIF values of the other variables were less than 2.5, which proves that multicollinearity is not a major problem in this study.

Table 4 Variance inflation factor test

Variable	VIF	1/VIF
Gender	2.29	0.437301
Knowledge	1.88	0.532351
Experience	1.66	0.602244
Region	1.29	0.775443
Age	1.17	0.854356
emp_years	1.09	0.917287
Income	1.07	0.933768
Working hours	1.06	0.942853
Number of workers	1.06	0.945175
Education	1.04	0.95856
Family members	1.04	0.960291
Children 14 under	1.03	0.975278
Above 65	1.02	0.984021
Mean VIF	1.28	

4.3. Regression analyses

The interest of informal workers can be influenced by many external and internal factors, such as social and demographic characteristics and scale of operations.

In the case of a linear probability model, the probability can be negative or have a value greater than one. In this case, the independent variables may not be statistically significant. To test the research hypotheses, the phenomenon that the research participant is interested or not interested in moving to the formal sector was considered. In this case, the variable of interest will take only one of two possible values for that individual. In statistics, such a variable is called a binary variable, and its values are coded as 1-interesting (Yes) and 0-not interesting (No). Therefore, I estimated the results using binary logit regression with probabilities between 0-1.

Table 5 Logit regression

Variables	Odds ratio	Std. err.	z
Gender	-0.0785	0.078	-1.01
Knowledge	0.228**	0.093	2.46
Experience	0.234*	0.124	1.89
Region	-0.155**	0.078	-2
Age	-0.0246***	0.005	-4.61
emp_years	-0.0207***	0.006	-3.75
Income	-0.0107	0.021	-0.52
Working hours	0.00590***	0.002	2.62
Number of workers	0.0543***	0.016	3.5
Education	-0.00612	0.027	-0.23
Family members	0.0301	0.036	0.85
Children 14 under	0.0346	0.048	0.71
Above 65	-0.101	0.145	-0.7
Constant	0.818**	0.364	2.25
Observations	3,000		

*** p<0.01, ** p<0.05, * p<0.1

The logit regression results showed that 4 variables (legal knowledge, experience in employment program, working hours, number of workers) were positively correlated, 2 variables (age, working year) were negatively correlated, and 7 variables (gender, region, education, income, number of family members, above 65, under 14) variables were not statistically significant relationships that might influence the interest in formalization.

The findings show that legal knowledge about employment laws and the experience of employment support programs, the number of employees, and working hours play an important role in the interest in formalization. However, sociodemographic factors did not significantly affect it.

Impact of employment promotion activities

One of the main objectives of this study was to investigate whether informal workers' knowledge, participation, and experience with employment laws and programs affect their willingness to engage in formal employment.

The logit regression results supported H1 and N2, which predict a positive relationship between employment law, program knowledge and experience, and interest in formalization. An informal worker with high legal knowledge is 1.2 times more interested in transition to the formal sector than a worker with poor knowledge. Similarly, employment program participation is 1.2 times more likely to be interested in formalization than those who did not participate in the program.

Most informal workers are not aware of employment promotion policies, programs, and labor laws. Although only one in ten participates in employment support programs, this experience provides some incentive to transfer into the formal

sector. But H3 was not supported as it was seen from the logit regression results that whether the level of education affects the interest to move to the formal sector is not statistically significant.

Working condition

H4 posited a positive association between working time and interest in formalization. The results support H4. The Odds was 0.0059, suggesting that if working hours increase by 0.002, logit value increased by 0.005. It means that the probability of formalization will increase when working hours increase.

The average weekly working hours is 58 hours, which is 10 hours more than the standard accepted by the ILO. And they work 18 hours more than the 40 hours stipulated in the Labor Law of Mongolia. However, the minimum 4 hours and the maximum 168 hours seem to depend on the employment status. In terms of employment status, the average working hours of employers is 60 hours, followed by employees at 56.9 hours and self-employed workers at 56.1 hours.

A previous survey revealed the advantages of informal employment, and 37.1 percent of them emphasized the advantages of being able to manage their vacation time, 23.8 percent of them having good income and salary, and 16.8 percent of them being suitable for their skills.

Logit regression results strongly supported the hypothesis regarding the number of employees (H5). In other words, increasing the number of workers increases the probability of working in the informal sector.

Gender and Dependency ratio

For gender, the results not supported H6, which expected that Women working in the informal sector are less likely to be interested in moving into the formal sector than male. According to the regression result gender was statistically insignificant in explaining the interest in formalization.

In addition, vulnerability of workers in the informal economy provides an opportunity to think about the impact on household members, especially children and the elderly, and the different channels through which social protection can reach informal workers.

If the total population of Mongolia is classified by age and gender structure, 56.6 percent are 18-59 years old, and the percentage of the population over 60 years old per working age person was 57.1 percent. It is the dependency ratio, or the number of dependents per 100 people of working age (population under 15 and 65 and over). For informal workers, the dependency ratio was 44.1 percent. This means that it is 13 percent lower than the national average. According to the regression results, the number of family members over 65 years of age is not significant in explaining the interest in formalization.

Interestingly, the regression odds ratio for the number of children under 14 is significant, while gender is insignificant for interest in formalization. This can be explained by the age variable. It was found that young informal workers, despite having young children, want a more secure future and are more interested in transitioning to formal employment and formalizing their businesses than older informal workers.

Informal workers age and years in informal employment

The results of the logit regression show that the hypotheses H8 about the age influencing the interest in formalization are rejected. There is an interesting pattern regarding the age of informal workers. It was observed that the age of the worker is inversely related to the decision and interest in formalization, that is, the desire to transition decreases with age. This seems to be due to the fact that 8.8 percent of employers expressed their unwillingness to move to the informal sector due to their advanced age, according to a previous survey. As they age, if they are not interested in moving into the formal sector, their future vision of retirement was interesting.

Table 6 Pension plans

Age group	15-25	26-35	36-45	46-55	55-64	65+	Total
Participates in voluntary SI	19.4	37.0	41.7	51.9	24.8	4.9	41.4
No idea about it	45.2	23.4	25.4	16.5	6.7	2.4	19.5
No plan	9.7	24.0	19.3	15.3	6.7	0.0	16.6
With private pension savings	0.0	3.3	1.4	1.4	0.5	0.0	1.5
Others	25.8	12.4	12.2	15.0	61.3	92.7	21.0
Total	100	100	100	100	100	100	100

In Mongolia, if an employment contract is signed between an employer and an employee, compulsory insurance must be paid, and a self-employed person without a contract has the right to voluntarily apply for social insurance. Thus, 41.4 percent of all informal workers participate in voluntary insurance, while only 1.5 percent said that they have created savings for the future. On the other hand, 36.1 percent of workers who do not have any plans or understanding about pensions show that not only are there risks in the future, but also limited opportunities for decent employment. Perhaps the ease with which voluntary insurance can be obtained may benefit workers in the informal sector.

For the region, the result was insignificant H7, which expected that the interest of informal workers in local areas to work in the formal sector is likely to be worse than that of urban workers. This may be due to informal employment in the agricultural sector.

According to Mongolian Labor Force Survey 2020 nationwide, the informal employment rate is 23.7 percent in the non-agricultural sector and 41.4 percent in the agricultural sector. The high rate of informal employment in rural areas is due to the predominance of nomadic animal husbandry based on family farming, which is a feature of our country. Informality is strong in rural areas of Mongolia, despite being average in the region.

As control variables, age, and years of working in the informal sector (H8) were negatively related to interest in formalization. Other control variables, such as gender (H6), region (H7), education (H3) had no statistically significant relationship that might influence the interest in formalization.

4.4. Discussion

The results of this study aimed to clarify how laws and programs to support employment affect informal workers' interest in formalization, and whether their interest in formalization depends on their working conditions and socio-demographic factors.

Before the discussion, it is worth noting that the factors that create informality are diverse and vary across countries, over time, and across segments of the informal economy. (OECD/ILO 2019) In recent years, it is considered effective to recognize

the reality of the informal economy and take several measures to eliminate the negative consequences hidden behind it.

The ILO's 2015 Recommendation 204 on the Transition from the Informal to the Formal Economy describes possible measures to support the transition to formalization. These include enforcing tax and labor laws, reducing registration costs and time, providing incentives for transitioning to formal employment, improving access to finance, technology, public procurement, training, and other measures. It is also recommended to combat informality by expanding the social security system for all.

According to the results of the survey, more than 40% of informal workers are participating in voluntary social insurance. At present, the government provides more than 70 types of social welfare services to 2,552.3 people a year. The welfare budget and the number of welfare beneficiaries are increasing year by year. Welfare recipients have doubled in five years. In other words, two out of three people in Mongolia receive welfare. In this situation, it is clear that the expansion of social welfare is difficult for the state budget. Instead, it is necessary to create an effective mechanism to direct social care services to the target group. In addition, research has shown that improving the effectiveness of employment promotion programs is likely to increase the desire to move to the informal sector.

Informal employment is directly related to gendered indicators of employment, gender gaps in education, skills, asset ownership and rights, and the fact that women are the primary caregivers in most countries (Holmes and Scott 2016). These factors contribute to the fact that women are more likely than men to work informally in

most regions of the world. In addition, informally employed women are more likely to work in precarious, low-paid jobs, housework, and unpaid household chores (Lund 2012).

The results of the survey showed a different picture in terms of gender. In terms of working hours and environment, women are working in better conditions than men. Statistical analyses showed that gender does not have a significant effect on the interest to move to the formal sector. This may be due to the fact that Mongolia is making progress in achieving gender balance in education, employment, and political participation. For example, the gender development index increased from 0.677 in 2005 to 1.030 in 2019, and the gender inequality index decreased from 0.401 to 0.322 during the same period, and Mongolia ranked 71st out of 162 countries. However, other factors such as reproductive age, income gap and the inflexibility of working hours in the formal sector, which may affect women's willingness to move into the formal sector, need to be further explored.

Neoliberal theory suggests that the rate of unregistration is 2 higher when there is too much state intervention (De Soto, 2001). In contrast, political economy theory suggests that new businesses are more likely to fail to register when government involvement is too low (Castells and Portes, 1989). Both of the above theories lead to the increase of the underground economy and the expansion of the informal sector. The rules, regulations, tax, and insurance measures proposed by the ILO may be too much based on neo-liberal theory, which calls for excessive state regulation. Therefore, the transition to the formalization strategy should be implemented carefully and in accordance with the current situation. More specifically, rather than registering, formalizing, or using any economic incentives, it is necessary to pay

attention to whether the problem of decent work of informal workers will be solved by registration alone.

Modernization theory suggests that non-registration is more common in the absence of economic development and effective demarcation (La Porta and Schleifer, 2008, 2014). The current informal employment situation in Mongolia seems to be closer to the modernization theory.

Generally, in my country, the combination of the above three theories is an effective way to reduce the informal sector and further promote decent employment. In other words, it is more effective to balance political intervention and find ways to promote decent employment without requiring strict regulations and registration systems. Effective governance is a prerequisite for this, and improved decent work conditions for informal workers will naturally strengthen economic capacity.

Chapter 5. Conclusion and Policy recommendation

Within the framework of the main objective of the study, the factors affecting the interest in formalization were analyzed. According to statistical analysis, legal knowledge about employment, experience in employment support programs, working hours, and the number of employees were positively related to moving to the formal sector, while age and years of working in the informal sector were inversely related. In other words, the interest in formalization decreases with age. In addition, demographic factors such as gender, region, education, income, and family size are important in determining the informal sector, but they were not significant in explaining the interest in formalization.

It was commendable that the knowledge and experience of employment laws and programs have a certain positive effect on the interest in formalization. Although the number of people who have participated in employment support projects and programs is small, most of them answered that they have achieved the expected results from the projects and programs, and this experience and results have a positive effect on their interest in formalization.

Also, as the working hours and the number of employees increase, they are likely to shift to the formal sector. This indicates the need for decent employment for workers in the informal sector. For example, the average weekly working hours was 58 hours, which is 18 hours higher than the Mongolian Labor Law and 10 hours higher than the maximum accepted by the International Labor Organization. The maximum working hours were 168 hours, and it is worth noting that working hours lead to health, workplace accidents and further negative social consequences.

On the one hand, the long working hours of informal workers may affect their interest in formalization, but on the other hand, the flexibility of working hours is the main advantage of informal employment. This may be due to the lack of flexible working hours in the formal sector.

Most respondents expressed an interest in moving into the formal economy. For informal workers who are interested in moving to the formal sector, there is an optimistic expectation that by having their business and activities officially registered, they will increase their profits, sales volume, and customers, and expand their activities.

However, the majority of informal workers who are not interested in moving to the formal sector due to the burden of taxes and contributions. In addition, a lack of legal knowledge about taxes, accounting, and fixed assets is the main reason for refusing to formalize their business.

Lack of access to social safety and benefits, low pay, and unfavorable working conditions, as well as a lack of organization, voice, and representation in policy making, are the difficulties that come with working in informal employment.

Firstly, it is important to understand the root cause of informality. Specifically, is it really because of education, poverty, unemployment, etc., rather than individual choice? Or are they not interested in formalization because it is useful for them? Is there a gap in the legal regulations to the extent that usefulness really harms the interests of the country? etc.

Policy actions should be centered on the various informal economy's segments, considering the needs, circumstances, and features of the informal unit. Based on these main results, the direction of the formalization policy is proposed as follows.

Based on the finding that interest in moving to the formal sector is inversely related to age, it is believed that it is more effective to develop a policy to support young people starting with the target group. First, focusing on young informal workers and enterprises with many employees is more effective.

Flexibility and modernization of employment, social security, and pension social insurance measures. Use employment projects and programs as a bridge to the formal sector. The results showed that informal workers who participated in the project tended to increase their interest in working in the formal sector, thus improving the efficiency of the program, and expanding its scope.

Make additional changes to established measures to support employment; for example, pay attention to strengthen the capacity of human resources by changing the direction of training and increase financial support for employment.

Most of the informal workers surveyed expressed a lack of knowledge about employment laws, policies, and programs. However, a greater awareness of employment support programs was found to affect the transition to the formal sector. Therefore, information dissemination and promotion are suitable for the age characteristics of the population. Organizing impact measures to improve awareness, knowledge, and culture of decent employment among informal workers.

Create opportunities for informal workers to join trade union and employers' associations, organize unions, and protect their interests.

Finally, it should not be understood that proper employment conditions will be immediately met by moving to the formal sector. Even in the formal sector, decent employment should not be neglected. It is necessary to take measures to protect businesses and reduce the vulnerability of the informal sector, especially during the post-pandemic economic crisis period.

Limitations of the study

It should be noted that because informal workers are not registered anywhere, it is difficult to determine the sampling frame and only based on available databases. Due to a lack of prior research studies on the topic in Mongolia, secondary data sources were used, and only available indicators were selected. It is possible that secondary sources of information may have the following limitations. These are:

The limited sampling frame of the study may have resulted in unequal selection in terms of employment status. Informal workers in the agricultural sector and in households that produce only for their own consumption are excluded, as are unpaid workers and those whose addresses are unknown.

Some indicators (example income) have high standard errors. Grouping to minimize standard errors did not reveal significant changes. Specifically, as a result of the regression, it was found that income was not statistically significant in explaining the interest in formalization. However, it is acknowledged that due to the survey data collection method and lack of income verification questions in the survey questionnaire, it was not possible to confirm whether income was answered accurately. Because during the data collection, there was a tendency to be wary of this type of question and to refuse to answer it. Therefore, further research needs to examine the net profit and income of businesses in more detail rather than just household income.

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국문초록

몽골의 비정규직 노동자의 양질의 고용문제

비공식 부문에서 공식 부문으로 전환

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본 연구를 통해 비공식적 근로자들이 공식화에 대한 관심에 어떠한 요인들이 영향을 미치는지에 대해 검토한다.

본 연구는 비공식 근로에 관한 주요 이론적 개념들과 국제노동기구의 ‘비공식 경제 권고에서 공식 경제 권고로의 전환’ 전략과 연구 결과를 바탕으로 하여 비공식적 근로 감소, 양질의 일자리 개선을 위한 정책 방향을 제시하였다.

해당 문제를 검토하기 위하여 본 연구는 2021 년에 몽골 노동사회복지부 부속 연구기관과 국제노동기구의 합동 연구한 조사 자료를 주요 자료로 활용하였다.

조사 결과 고용법에 관한 법률지식과 고용지원 프로그램 경험, 직원 수, 근로 시간 등이 공식화에 대한 관심에 중요한 역할을 하는 것으로 나타났다. 그러나 사회인구학적 요인들이 크게 영향을 미치지 않다는 것이 판단되었다.

본 논문은 모든 문제에 대한 해결책을 제공하지 못할 수도 있으나, 몽골의 비공식적 근로를 보다 잘 이해할 수 있도록 정책 입안자, 학생 및 해당 분야의 연구자들에게 기여할 것이라고 믿는다.

주요어: 비공식 경제, 비공식적 근로자, 양질의 일자리, 공식화, 자영업자, 고용원이 없는 자영업자와 근로조건

Acknowledgements

First, I would like to express my gratitude and respect to my advisor, Professor Bong Hwang Kim, who always guided me patiently. His kind encouragement and valuable advice were the key to the successful completion of this study. I would like to thank Professors Mingyo Koo and So Hee-jeong, members of my thesis group, for their constructive comments and suggestions.

I would like to express special thanks to my colleagues at the RILSP for providing secondary data sources and sharing valuable information.

I would also like to express my sincere gratitude to Tsogtbayar Chimedtseren, Geoffrey Maaba Ducanes, and Altantsetseg Batchuluun, who generously shared their knowledge and skills, and Tungalag Baatarchuluun, who helped me translate the abstract professionally. I must also mention my beloved family here.

Without your deep knowledge and support, I would face many difficult obstacles.

Finally, I am extremely grateful to Seoul National University, GSPA, and KOICA for all the opportunities and support that have been given to me to learn.

I wish you all of the best.