

# Market Vendors in Kompong Cham Town Sell to Survive in the Informal Economy\*

## Introduction

As a result of the construction of the Kizuna Bridge across the Mekong River, the rehabilitation of roads to the north and north-east and increased market activity throughout Cambodia, Kompong Cham town has become a hub of transport and transit activity. This accelerated rise in market activity has provided opportunities, mainly for women, to earn from selling vegetables, fruit and fish in the informal economy. This article, based on recent research, inquires briefly into the general notion of the informal economy as a prelude to a discussion of research methods and major findings.<sup>1</sup>

## Understanding the Informal Economy

Broadly defined, the informal economy is the unregulated non-formal segment of the market economy that produces goods and services for sale or for other forms of payment. The term “informal economy” thus 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. By contrast, formal sector firms are distinguished by contractual employment with explicit rights and duties, lines of authority and conditions for hiring and firing. Workers are protected by the existing labour legislation, enforced and promoted by their own organisations. Under these conditions, individuals sell their labour to firms for a stipulated amount of time, receiving in return a regular monetary remuneration (Portes 1983). The Economic Institute of Cambodia (EIC) estimates that in 2003 informal sector workers were 85 percent of Cambodia’s total workforce and contributed 62 percent of total gross domestic product, making them significant contributors to the country’s economy (EIC 2006).

There are several schools of thought regarding the relationship between the informal and formal

economies. These may be characterised broadly as the dualists, the legalists and the structuralists. The dualists view the informal economy as a separate, marginal economy not directly linked to the formal economy, providing income or a safety net for the poor. The legalists argue that informal work arrangements are a rational response by small entrepreneurs to over-regulation by government bureaucracies. The structuralists maintain that the informal economy is subordinated to the formal economy by capitalists who seek to exploit small producers and traders to reduce costs (Chen *et al.* 2002).

For too long, governments have adopted a dualist approach and acted on the assumption that, with the growth of the formal economy, the informal economy would gradually diminish on its own. This has led to biases in policy that have favoured the formal economy to the detriment of the informal economy. Governments need to develop policies that acknowledge the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to increase the productivity and improve the working conditions of those who work within it (Becker 2004). As stated during the 89<sup>th</sup> session of the International Labour Conference in June 2001: “The fundamental challenge posed by the informal economy is how to integrate it into the formal economy. It is a matter of equity and social solidarity. Policies must encourage movement away from the informal economy. Support for exposed groups in the informal economy should be financed by society as a whole.”

The transition from an informal to a formal status is normally gradual, and the challenge posed is to initiate processes that can support enterprises to achieve a more formal state (Figure 1). Small entrepreneurs make economic calculations along the lines of cost-benefit analysis, determining a minimum threshold of participation in formal arrangements for which the costs remain lower than the benefits. Some enterprises will therefore choose to participate in only a subset of institutions at any point in time. In addition, benefits and costs

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of participating in formal agreements vary for enterprises of different size and expected lifetime (Becker 2004). Market vending activities are highly informal and therefore require concerted government and civil society attention to improve their productivity and their coverage under universal worker rights.

### Research Methods

The field research was conducted in September 2007 in Kompong Cham town with market vendors who sell their goods in open spaces at the Boeung Kok, Kro Moun and Sala Chen markets, the three main market sites in town. In all, 215 market vendors selling vegetables, fruit or fish were purposively interviewed. An attempt was made to interview comparable numbers of vendors selling the three different types of goods. Rough estimates suggest that

in the peak morning hours about 750 vendors were offering their products at the three main markets. The instrument was kept short since the interviews were conducted during trading times at the selling spaces of the vendors. Areas of inquiry focused on: 1) vendor profiles and roles as household earners; 2) business operations including initial capital investments, access to credit and supplies and daily earnings and profit; and 3) claims to urban space. In addition to the survey questionnaire, in-depth key informant interviews were taped with selected vendors, mostly at their homes after the peak periods of market activity. These in-depth interviews, some of which appear in the full report, provide a more nuanced understanding of the challenges that confront the vendors. Key informant interviews were likewise conducted with market committee officials to gain insight into the relationships of the

**Figure 1: Informal to Formal Sector Continuum**

	INFORMAL SECTOR		FORMAL
	<b>Subsistence Enterprises</b>	<b>Unofficial Enterprises</b>	<b>Unofficial Enterprises</b>
			<b>Official Enterprises</b>
<b>Degree of Informality</b>	100%	High proportion of sales undeclared and workers not registered	Some proportion of sales undeclared and workers not registered.
<b>Type of Activity</b>	Single street traders, cottage/micro enterprises, subsistence farmers	Small manufacturers, service providers, distributors, contractors	Small and medium manufacturers, service providers, software firms
<b>Technology</b>	Labour intensive	Mostly labour intensive	Knowledge and capital intensive
<b>Owner Profile</b>	Poor, low education, low level of skills	Poor and non-poor, well educated, high level of skills	Non-poor, highly educated, sophisticated level of skills
<b>Markets</b>	Low barriers to entry, highly competitive, high product homogeneity	Low barriers to entry, highly competitive, some product differentiation	Significant barriers to entry, established market/product niche
<b>Finance Needs</b>	Working capital	Working capital, some investment capital, supplier credit	Investment capital and working capital, letters of credit, supplier credit
<b>Other Needs</b>	Personal insurance, social protection	Personal and perhaps business insurance	Personal and business insurance, business development services
	<b>Least dynamic</b> <b>Completely informal</b>		<b>Highly dynamic</b> <b>Partially informal</b> →

Source: The Informal Round Table, Sofia, 18–20 April 2002, Simeon Djankov, Ira Lieberman, Joyita Mukherjee, Tatiana Nenova, “Going Informal: Benefits and Costs”, cited in Becker 2004

**Table 1. Market Vendor Positions as Household Earners, Kompong Cham Town, September 2007**

	Vegetable Vendors		Fruit Vendors		Fish Vendors		All Vendors	
	#	%	#	%	#	%	#	%
Sole household earner	28	36	25	36	25	37	78	36
Principal household earner (more than 50% of household income)	20	26	19	27	29	43	68	32
Sole or principal household earner	48	62	44	63	54	79	146	68
	N=77		N=70		N=68		N=215	

vendors with wholesalers, market stall retailers and market tax collectors.

### Profile of Market Vendors

Remarkably, 97 percent of the vendors surveyed were women. The mean age of the vendors interviewed was 40.6 years, with 57 percent being from 30 to 49 years. While 34 percent had completed primary education or higher, 18 percent had never attended school. The respondents' overall low educational levels and lack of formal skills and training explain in part why 80 percent of the vendors had never earned from any other type of job. Low educational and high age levels also prevented them from securing employment in the Phnom Penh garment factories. While 93 percent of the respondents surveyed had settled in Kompong Cham town prior to 2000, 52 percent had started to work as market vendors in the town only since 2000, taking advantage of the economic boom.<sup>2</sup>

While 87 percent of the market vendors had been married, 17 percent were now widows or widowers, and 4 percent were separated or divorced. The mean number of living children of market vendors currently or previously married was 3.3, the mean number of these children living at home was 2.4, and the mean number of children living at home 5 years old and below was 0.3. In large measure the vendors surveyed were responsible for children but not overly burdened with the care of preschoolers. The vibrant markets in Kompong Cham town provided the vendors with opportunities to earn money close to home, while allowing them to fulfil their traditional role of caring for their children.

### Contribution as Household Earners

In the market vendor households, the mean number of members living and eating together was 5.3. The mean number of members contributing to household livelihood was only 1.9. This in itself underscored the importance of the vendors as household earners since, by the very fact of their trading, they constituted one of the members contributing to household livelihood. Additional data revealed that 68 percent of the vendors sampled were either the sole or principal earners in their households (Table 1). Given the strength of their earning positions within the household and the traditional role of women in Cambodian society, the market vendors exercised considerable control over money and its use in their households. Overall, four-fifths of the vendors sampled held the money in their households.

These figures belie the Khmer proverb "Women cannot move around the stove", which implies that women cannot get out of the cooking area of their homes to earn income. On the contrary, the market vendors sampled in this study were in large measure the major contributors to their household's subsistence and not, as reflected in the above saying, homemakers fated to be dependent on the earnings of their spouses.

### Buying Goods for Trading

The average initial capital investment of the vendors surveyed was KHR154,182 (USD38.55). The relatively small investment needed for the vendors to start their activities enabled 50 percent of them to finance their micro-enterprises with money from their own savings. Another 20 percent

got most of their initial capital from wholesalers or traders. Two-thirds of the market vendors bought their goods from wholesalers or middlemen. Some vendors bought their goods entirely with cash, others partly with cash and partly with credit and still others entirely on credit. Of note, a majority of the vendors who bought partly or entirely on credit had to repay the credit at the end of the same day. Wholesalers transported goods from the place of purchase to the place of selling for one-fourth of all the vendors.

The link between the wholesalers and market vendors was as integral to the market chain as that between the wholesalers and market stall retailers. Wholesalers provided market vendors with investment capital, daily credit and transportation assistance. In return the vendors acted as middlemen, or more accurately middle women, who enabled the wholesalers to trade and distribute their goods to a widely dispersed population of customers beyond those who bought from the market stall retailers. Without the vendors, the wholesalers would not be able to conduct business with such a high volume of small buyers.

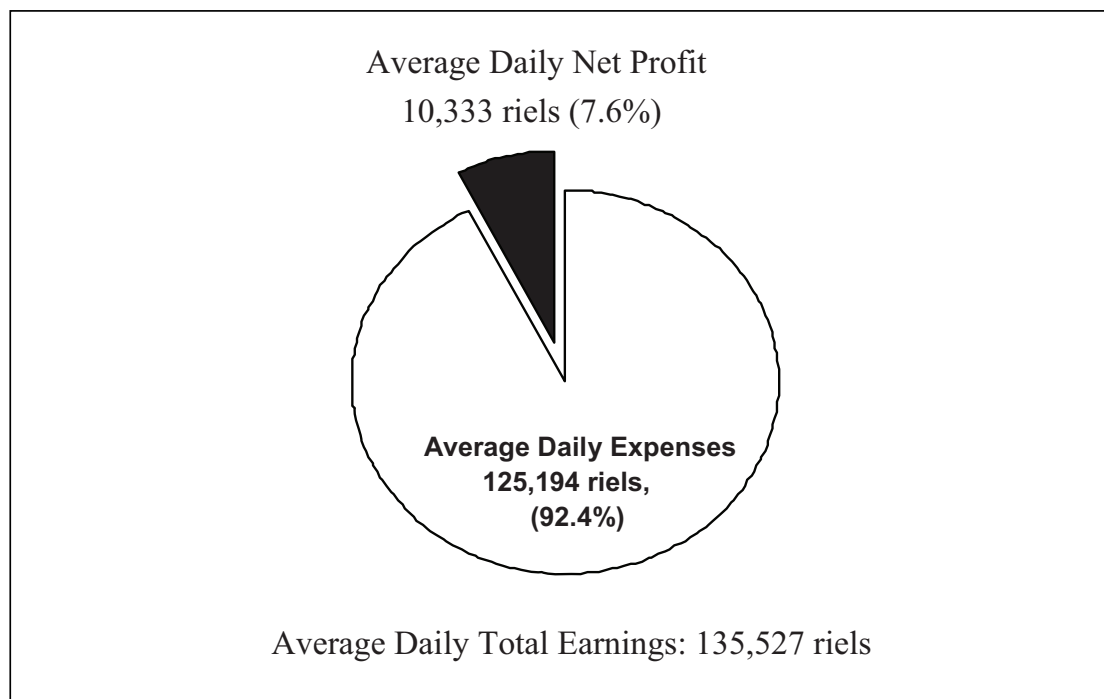
**Daily Earnings**

The mean average daily profit for all market vendors was KHR10,333 (USD 2.58). This amounted to only 7.6 percent of the average daily

total earnings of KHR135,527 (Figure 2). While the vendors were trading with rather large sums of cash and generating relatively high gross earnings, their average profit margin was comparatively low. Meanwhile sharp differences in profits were evident among vendors. While 31 percent of the vendors had average daily profits of 5000 riels or less, another 14 percent had average daily profits of more than 15,000 riels (Table 2). This revealed the disparity among vendors in access to credit, managerial ability, scale of business operations and capacity for growth.

Given the large percentage of vendors earning less than 5000 riels daily, the average household size of 5.3, and the status of vendors as major household earners, it would appear that a significant number of the vendors surveyed were indeed selling to survive.<sup>3</sup> By contrast, a smaller portion of the vendors were more financially secure and living beyond mere subsistence levels. But whether market vending contributed solely to daily subsistence or also to upward mobility, its value in individual women’s lives should not be underestimated. Three-fourths of the vendors said that they were satisfied with their work. More than two-thirds maintained that as vendors they were able to support their family and raise their children.

**Figure 2: Market Vendor Average Daily Profit as a Percentage of Average Daily Total Earnings, Kompong Cham Provincial Town, September 2007**



The average daily working hours of the vendors were 7.8, and more than three-fifths of them worked entirely on their own. Others had help mainly from relatives during peak seasons. Only a few had received advice or training on how to operate vending businesses and even fewer kept written records of their daily earnings and

**Table 2: Market Vendor Average Daily Profit (in riels), Kompong Cham Town, September 2007**

	Vegetable Vendors		Fruit Vendors		Fish Vendors		All Vendors	
	#	%	#	%	#	%	#	%
1000–5000 riels	31	42	21	30	14	21	66	31
5001–10,000 riels	28	37	26	38	36	53	90	42
10,001–15,000 riels	8	11	11	16	9	13	28	13
More than 15,000 riels	9	12	11	16	9	13	29	14
	N=76		N=69		N=68		N=213	

expenditures. At the same time, more than half of the vendors stated that they planned to expand or diversify their business. Lack of access to increased capital was seen by a majority as a major obstacle to business expansion and diversification.<sup>4</sup>

### Selling Spaces and Market Fees

While vendors exerted rights over their selling spaces, their rights were not inviolable. Notably, almost two-fifths of the vendors surveyed had been evicted from selling in a previous space. When asked whether they could be evicted from their current selling space, one-fifth replied affirmatively and another two-fifths were not sure. Indeed, 15 percent of the vendors interviewed had been chased by the authorities from their current selling space. Moreover, 15 percent had had goods confiscated by market security or police in their present selling space. The uncertain legal status of the vendors left them vulnerable to eviction and harassment by those in authority. Vendors must be given clear legal status to claim their entitlements to pursue their livelihoods and their right to space (see Kusakabe 2006b).<sup>5</sup>

Nearly all respondents paid daily business operation tax or *pheasi* on goods sold. Just under half paid for space. Most vendors also paid daily fees for renting umbrellas and for latrine and sanitation services. Still vendors experienced problems related to bad smells from uncollected garbage, muddy surroundings, rats and insects and lack of latrines and clean water. Market vendors paid on average KHR2135 (USD0.53) daily in total market fees. Those paying business operations tax paid on average KHR1021 (USD0.26) daily. Generally, the vendors complained not about paying the standard fees but about paying the excessive amounts sometimes charged by the

tax collectors. While none of the market vendors interviewed was a member of a vendor group or association, vendors from Boeung Kok market had taken successful action against excessive business operation taxes with the support of a human rights group.

### Conclusions

In large measure, the findings of the present study are consistent with the literature on market vendors in Phnom Penh. While market vendors work long hours and contribute significantly to household incomes, their lack of education and skills, their lack of access to capital and their lack of access to labour limit their productivity and profit margins and prevent most of them from moving beyond subsistence. Moreover, their uncertain legal status and exclusion from labour legislation leaves them vulnerable to abuse and unprotected against contingencies. Among market vendors, deficits in employment, rights, social protection and representation remain high and need to be urgently addressed.

By situating the study of Kompong Cham market vendors in the context of the informal economy, this research reveals the underlying biases of the Cambodian government toward the formal economy. Guided by a dualist approach, the government has acted on the assumption that the informal economy will gradually diminish on its own with the growth of the formal economy. This clearly has not happened. This study argues that the government must develop policies and initiate processes to enable informal enterprises to achieve a more formal state. Market vending activities in particular are highly informal and therefore require concerted government and civil society action to improve their productivity and their coverage under universal worker rights.

## Policy Recommendations

Following the conclusions of this research and in line with recent studies commissioned by the International Labour Organisation (Kusakabe 2006a, 2006b; EIC 2006) on market vendors and the informal economy in Cambodia, the study advances several policy recommendations to government and civil society: repeal all laws that make market vending illegal; extend Cambodia's labour and social security laws to include market vendors and other informal workers; include market vendors in urban development planning and market governance; enhance representation of market vendors and other informal workers in labour associations; augment skills and knowledge and access to capital of market vendors to increase productivity; and streamline government regulations and lower costs to establish and operate small businesses.

## References

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- Portes, Alejandro (1983), "The Informal Sector: Definition, Controversy, and Relation to National Development", *Review*, Volume 7, Number 1

## Endnotes

- 1 The research report, entitled "Selling to Survive: Market Vendors in Kompong Cham Town Making their Living in the Informal Economy", was completed in November 2008 by ADI trainees and team. The study may be accessed in English and Khmer on the CCC/ADI web site.
- 2 An ILO report on street vending in Thailand, Cambodia and Mongolia indicates that street vending increases under both economic growth and economic recession. During economic booms more people enter into this type of work. During recession, vending becomes a buffer for the unemployed (see Kusakabe 2006b).
- 3 In 2004 in other urban areas, the food poverty line and the poverty line for an average household size of 5.3 amounted to 8310 riels and 10,346 riels per day respectively. See A Poverty Profile of Cambodia 2004, Ministry of Planning, February 2006.
- 4 Kusakabe (2006b) argues that, unlike men, women have less control over the time and labour of other family members. She contends that it is this lack of access and control over free labour, and not lack of skills or capital, that makes the crucial difference in the growth of business between women and men.
- 5 According to the Sub-Decree on Public Order signed by the first and second prime ministers on 10 August 1994, street vending is essentially illegal. Article 12 states that selling goods and disturbing the public order are prohibited. In the case of violation, they will be fined 10,000 riels. Article 13 states that selling goods by cart along the road is prohibited. In case of violation, they will be fined 2000 riels. This law notwithstanding, the Business Operation Tax Book makes provision for the collection of taxes from those who rent big umbrellas, from those who sell from baskets and from those who sell from mobile carts—all characteristic of vending. This contradiction in law and regulation creates a space for ambiguous fee collections (see Kusakabe 2006a).