

RETHINKING EMPLOYMENT FORMALIZATION: MOTIVATIONS AND CONSTRAINTS THROUGH THE LENS OF INFORMAL WORKERS IN CAMBODIA

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MSc

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ABSTRACT

In Cambodia, informal employment accounts for 88.3% of the total workforce. This phenomenon poses a critical issue for inclusive and sustainable development across the country. This thesis investigates the dynamics of employment formalization through subjective experiences of informal workers, examining policy narratives that prioritize economic incentives while neglecting the socio-cultural aspects that shape workers' choices and realities. This study employs mixed-method approaches, combining quantitative surveys with 87 informal workers and semi-structured interviews with six participants across three sectors: construction, tuk-tuk driving and street vending. The findings reveal that formalization decisions in Cambodia are significantly shaped by social aspects, with 56.8% of respondents prioritizing social recognition, personal status and dignity over economic benefits. The research identifies remarkable sectoral variations: construction workers tend toward social protection benefits, street vendors prioritize legitimacy and cultural acceptance. At the same time, tuk-tuk drivers look more into professional recognition and career advancement. Relatively, the study illustrates a 67.8% trust deficit in government institutions that highlight systemic barriers beyond regulatory complexity. This research contributes theoretically by challenging the idea that formalization can be influenced solely by economic models; nevertheless, it demonstrates how informal workers' decisions are shaped by complex social, cultural and personal factors. Policy implications suggest that effective formalization strategies must integrate social recognition frameworks, streamline bureaucratic procedures, and maximize institutional trust.

Keywords: Informal employment, informal economy, motivations, constraints, developing economies, formalization.

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CHAPTER 1: INTRODUCTION

1.1 Research Background

Informal employment represents a large part of Cambodia's labor market, and poses many complicated challenges for employees and governments in achieving sustainable economic and social development. Cambodia achieved an average annual GDP growth of 7.4% from 2010 and 2019 (World Bank, 2023); nevertheless, the informal economy is still large and it accounts for more than 65% of Cambodia's GDP (IMF, 2022). However, the distinction between formal and informal employment in Cambodia extends beyond mere legal recognition. According to the International Labour Organization (ILO) (2018), informal employment defined as the absence of legal protections, social security coverage and formal contracts. Conversely, formal workers operate within what Ducanes et al. (2023) demonstrate that formal employment features legally recognized work arrangements with registered entities, access to social protection schemes, regulated working hours, guaranteed minimum wages and enforced comprehensive health and safety standards. Despite Cambodia's strong economic growth, the persistence of widespread informality within the labour market highlights structural challenges that remain underexplored. According to the empirical findings presented in the National Institute of Statistics (2021), informal employment accounts for approximately 88.3% of total employment in Cambodia, a figure that substantially surpasses regional averages. The phenomenon is driven by the complex interrelation of economic structures, social institutions, cultural norms, and policy frameworks, all of which significantly influence the behaviour of the national labour market. Disaggregated labour market data reveal remarkable gender-based disparities in informal employment, with 94.6% of employed women participating in informal labour, compared to 89.7% of their male counterparts (ADB, 2012). The National Institute of Statistics (2019) demonstrates the survey findings of informal employment in Cambodia within specific industries, namely construction (97.2%), transportation (94.5%), and retail trade (94.2%). The Royal Government of Cambodia (RGC) has attempted to address these socio-economic issues through the implementation of the National Social Protection Policy Strategy (NSPPS 2016-2025) and the expansion of the National Security Fund (NSSF). While NSPPS seeks to establish a comprehensive social protection framework that ensures universal coverage for Cambodian workers (RGC, 2017), the NSSF has extended its scope to include healthcare coverage for specific categories of informal workers, which initially provided only to formal

private sector employees (ILO, 2021). However, as Williams (2014) notes, these interventions have encountered significant challenges due to rigid contribution schemes and administrative complexities that fail to meet informal workers' needs. Duman (2024) critiques these policies as generally shaped by macroeconomic objectives, with insufficient attention to micro-level perspectives and day-to-day experiences of informal workers who prefer specific values obtained through informal jobs. To address this issue, the inclusion of the personal perspectives of informal labourers in policy discussions and debates is essential to ensure a full understanding of employment formalization in Cambodia. Gallien and van den Boogard (2023) argue that the success of employment formalization programs depends on aligning policy incentives with the motivations and constraints of informal workers.

1.2 Problem Statement

As of 2019, informal employment continues to be deeply embedded in Cambodia's economic landscape, with 88.3% of the workforce engaged in informal sector employment. Such persistence arises despite intended policy efforts and interventions directed at promotion, formalization of work (ILO, 2024). This continuous stagnation evidences a clear separation of top-down formalization policies from the lived experiences of informal workers. Technically, existing reforms do not address the subjective motivations, structural constraints and personal perceptions that shape workers' engagement with formalization policies. Recent studies and policy literature on Cambodia have identified macroeconomic and institutional barriers to employment formalization, including complex registration processes, limited access to finance and weak enforcement of labour laws. According to the International Labour Organization (2024), it is highly recommended that policymakers shall consider comprehensive policy measures like tax incentives and social protection schemes expansion. Similarly, UNDP (2023) emphasizes the use of technology to simplify compliance and enhance administrative efficiency. However, these studies neglect the subjective decision-making processes of informal workers. There is an urgent need to explore how economic precarity, cultural norms and institutional distrust influence resistance to formalization. The Cambodian National Social Protection Policy Framework (2016-2025) and the draft 2023 National Strategy for Informal Economy Development (NSIED) contain extensive plans for structural reform, but they do not consider the psychological and experiential factors that shape worker behaviours toward the anticipated loss of freedom from their job and the bureaucratic challenges of formalization.

Despite this, it reflects a broader misalignment between the policy framework and the lived experiences of informal workers; thereby limiting the potential of formalization strategies (UNGM, 2025). Macro-level perspectives often underline economic incentives, government policies and tax revenues for the state; however, economic motivations and constraints are fundamental to understanding informal workers' limited engagement in the process. While formal employment is often associated with social security coverage, many informal workers perceive the financial burdens involved in registration costs, taxation and mandatory contributions as prohibitive. As reflected in the low enrolment rate in the National Social Security Fund (NSSF), with only 32% of formal-sector workers participating. Moreover, social and cultural factors further complicate the transition to formality. The ILO (2018) mentions that informal employment in Cambodia is embedded in traditional livelihood systems and fosters community legitimacy, while peer networks often influence skepticism toward state-led initiatives. The same report pinpoints psychological constraints like fear of bureaucratic harassment or loss of job flexibility, which are highly affected by Cambodia's legacy of corruption and informality as a survival mechanism.

This research, therefore, addresses the question “To what extent does informal workers’ awareness of formalization policies, combined with their perceived motivations and constraints, affect their willingness to transition into formal employment?” By examining this relationship, the study will fill a critical gap in understanding why current policies, ranging from social protection schemes to employment registration incentives have failed to engage with the informal workforce in Cambodia, mainly when analysed through the lens of individual agency. Moreover, it aims to explore the economic, cultural, and psychological determinants shaping informal workers decision-making, and identify policy frameworks that align with both individual needs and systemic structures.

1.3 Research Objectives

- To analyze how informal workers' experiences with formalization policies shape their preference for transitioning to formal employment in Cambodia.
- To explore the range of economic, cultural, and psychological contexts that influence informal workers' attitudes toward their incentives and restrictions in moving toward formal employment.

- To highlight the disconnect between formalization policies and the lived experiences of informal workers to identify barriers to implementing formalization policies.
- To provide evidence-based recommendations for aligning policy frameworks with informal workers' structural determinants and agency-based decision-making.

CHAPTER 2: LITERATURE REVIEW

2.1 Theoretical Framework

Dual Labour Market Theory: Structural Determinants of Informality

The dual labour market theory is one of many frameworks that provides a compelling lens to explain why many workers, particularly in low-income countries - are hesitant to move into formal employment. Cling et al. (2014) note that the dual labour market theory highlights the primary (formal) sector and also turns to the secondary (informal) sector, which in turn explains the structural obstacles presented by the labour market segmentation, lack of access to formal employment, or lack of institutional capacity that are the barriers to moving to formal employment. Furthermore, the dual labour market theory allows not only for an economic interpretation but also for consideration of the lived experience of workers who try to achieve formal employment. Research from Ulyssea (2020) in Brazil found that informality is often not a personal choice but rather a result of exclusion from the formal economy. His findings support that barriers to formal employment ultimately reveal "two-tier" labour market with marginalized groups "stuck" in the informal economy. As such, it also offers the opportunity to critique policy responses; as an example, advocates suggest that lowering the cost of registration is a pathway to formalizing the informal economy, but there remain deeper and broader implications concerning structural blockages for these groups from achieving formal employment. Furthermore, dual labour market theory provides a practical understanding of wage variation across sectors. Tansel and Kan (2012) indicate that informal work in developing economies is typically linked to lower wages, supporting to the notion that labour markets are segmented and do not operate under competitive equilibrium conditions. However, as Maloney (2004) has shown in Latin America, even within the informal sector, some informal workers intentionally choose to stay in the informal sector despite positive consequences if formally being employed, which is inconsistent with the dualist perspective and note that the informal sector is much more diverse and that individual choice is a fundamental influence in shaping

the labour market. Chen (2012) argues that although dual labour market theory highlights structural barriers in the informal market, it does not comprehensively identify how people make decisions in the context of employment formalization nor the complex interplay of cultural and institutional elements that shape that process.

Behavioural Economics: Decision-Making Under Constraints

Behavioural economics helps us understand why people do not always make rational decisions based on what is seen on paper, especially in the context of employment formalization. This framework highlights how cognitive limitations, psychological biases and contextual factors often influence an individual's economic choices. In addition, it explains the persistent gap between the expected benefits of formalization and the failure to adopt formal structure in practice (Joshi et al., 2014). In many developing economies, business owners feel more pressure about the immediate expenses of formalizing their business, such as registration fees and tax obligations than its long-term benefits like legal protections, access to credit and long-term stability. Djankov et al. (2018) point out that policies that offer immediate incentives or offer something tangible immediately are more effective than those that focus only on long-term advantages. Thus, addressing how people perceive time and risk can lead to better policy outcomes. In fact, risk aversion deeply influences how informal workers perceive formalization. As Bruhn and McKenzie (2014) show through research in multiple countries, many informal labourers prefer to remain outside the formal system not because they are unaware of its potential benefits, but because they perceive that formalization can lead to relentless risks and uncertainties. Logically, their decisions are shaped by lived realities and not by a lack of awareness. This phenomenon challenges the idea that providing more information will increase the rate of formalization, however, it showcases the need for policies that address the issues faced by informal workers. Over time, workers and entrepreneurs become comfortable with the routines and relationships within these informal frameworks. Consequently, this comfort creates a resistance to change even when the benefits are clearly communicated. As Benjamin et al. (2014) note, social norms and long-established practices play important roles in maintaining participation in the informal sector. It shapes the behaviour of workers beyond economic calculations.

Institutional Theory: Rules, Norms and Formalization Pathways

North (1990) stressed that institutional theory interprets formalization as part of a broader system of informal and formal frameworks that can affect economic behaviour. From this perspective, the employment formalization process is not only involved in laws and enforcement practices, but also in the social norms that influence individuals' transition into formality. De Soto (2000) underscores how excessive bureaucracy and complex regulations can lead to high costs that refrain workers from formalizing their jobs. Relevant research by Williams and Shahid (2016) indicate that in developing regions, lower rates of formalization are the result from high regulatory complexity. Kanbur (2017) further explains that without vigorous enforcement, regulatory reforms usually do not contribute sufficiently to decrease informality, knowing that similar policies can convey different results depending on the institutional context. For instance, simplifying registration processes alone and hoping to increase formalization rates does not convey the results policymakers expect. In principle, institutional considerations address the importance of systemic context, however, they do not deeply look into individual agency and cultural factors. It is important to integrate these perspectives with frameworks that pinpoint personal and cultural dimensions to understand the complexity of the employment formalization landscape.

Lund's Multidimensional Framework: An Integrative Approach

Lund's (2009) multidimensional framework offers a holistic understanding of formalization, by aggregating key dimensions, which are economic, social, cultural and psychological aspects, that shape workers decision-making regarding employment formalization (Lund, 2009). His research notes, the economic dimension includes dual market structural analysis and behavioural insights, clarifying that formalization is connected to complex cost-benefit choices under diverse constraints and conditions. These insights relate to the work of Chen (2020) and show that formalization is shaped, in part, by the available opportunity and shape by the subjective economic benefit. The social dimension recognizes networks, relationships and power relations that constitute economic activity. This research in Africa pursued by Meagher (2013) discusses how social networks serve a dual role in supporting informal economic activity, while also creating potential pathways to formalization through collective action. Therefore, formalization is connected to social ties and the distillation of power, rather than being only a transactional process. The cultural dimension discusses how the level of shared

beliefs, norms and values affects informal workers understanding of the legitimacy of the state and the role of formal institutions. The Informal Economy (2005) explains that when individuals perceive the country as corrupt, exploitative or disconnected from their lived experiences, workers are more likely to perceive informal economic activity as more acceptable than the formal system. Lastly, the psychological dimension involves identity, personal aspirations and subjective well-being, which influence workers' decisions regarding formalization. Günther and Launov (2012) presents that formalization can remarkably shape how people see themselves and their societal roles. Therefore, formalization policies should concentrate on economic incentives, and recognize the personal and psychological aspects of work that fulfil their needs.

Synthesis and Theoretical Integration

These frameworks intersect, each providing a unique perspective on how informal workers transition to formalized work. While dual labour market theory describes structural inequalities that constrain or enable choices made in the labour market, behavioural economics gets us down to a more human scale by demonstrating that the decisions people make about formalization are often not rational, and contingent on emotions, habits, circumstances and realities. In addition, institutional theory illustrates how social norms which can be referred to as informal rules, and systems as formal rules shape the perspective of workers. To understand the complexity of informality, research increasingly embraces integrated approaches. According to Perry et al. (2007), effective formalization policies that address the needs of policymakers and individuals address not only structural barriers, but also behavioural constraints, institutional credibility and socio-cultural factors.

2.2 Empirical Insights into Low Formalization Demand

Literature concerning firm formalization demonstrates a basic disconnection between policy assumptions and firm behaviour that certainly has implications for thinking about employment formalization initiatives. The most rigorous causal evidence on formalization demand is primarily provided by De Mel et al. (2013) through their experimental study conducted in Sri Lanka. The research demonstrates that even when the direct costs and information barriers were removed, most informal firms remained informal. This example challenges policy-based assumptions that bureaucratic hurdles are the only constraints, preventing firms from formalization. Experimental design, randomizing information and reimbursing costs to

informal firms means that the authors are able to identify formalization preferences free of the usual confounding factors. The resultant finding is that informal firms stay informal of their own free will indicating an economic calculation as opposed to a simple ignorance or a lack of capital. This empirical evidence is consistent with the theoretical assumptions made by La Porta and Shleifer (2014). Their approach suggested, because informal firms were really limited by productivity constraints, they cannot compete in a formal market. In their assessment of the situation, informal firms are less productive, and serving a different market than formal firms, thus, making the move into a more formal assigning that is only economically rational for a very small number of informal businesses. World Bank exploratory research has shown no responsiveness to interventions aimed at the formalization of do business, in a host of situations. Studies that have looked at simplified procedures in Benin (Benhassine et al., 2015), experimental approaches in Malawi (Campos et al., 2018), and enforcement measures (De Giorgi et al., 2015), have found modest impact from traditional policy interventions. These findings are significant for policies on employment formalization. They suggest efforts to reduce administrative burdens or incentivize registration may not be effective by themselves. The evidence leads us to conclude that broader model approaches are necessary, in order to move beyond existing productivity gaps and market frictions facing informal firms.

2.3 Motivations for Employment Formalization

2.3.1 Economic Motivations

For many Cambodian workers, the decision to transition from informal to formal employment is strongly rooted in economic incentives. They often seek more stable income, better job security and access to social security provided through formal employment. Packard et al. (2019) highlight that access to social security is an important key factor motivating individuals to formalize in developing economies, including Cambodia. The National Social Security Fund (NSSF) of Cambodia, introduced in 2007, aims to support formal workers by providing benefits such as employment injury insurance, health coverage and pensions (ILO, 2017). In addition, The 2019 Social Security Law established Cambodia's first mandatory pension system for private-sector workers, aiming to provide long-term financial stability through contributions from both employers and employees. For workers in physically demanding industries such as construction, the system offers a meaningful incentive to move from informal day labour to formal employment. In other words, the pension scheme targets a better alternative to the

uncertainty of informal savings methods, offering informal labourers more financial security in retirement (Nakamura et al., 2020). However, empirical research indicates that these benefits have uneven motivational values as they differ remarkably across different labour market segments. Arnold and Shih (2010) show how workers' experiences and perceptions shape their decisions around formal employment in Cambodia. While higher-skilled workers see formal jobs as a way to access social protections, promising a sense of stability and long-term security, lower-skilled workers are concerned that immediate financial burdens such as taxes and mandatory contributions outweighing the long-term advantages. Almost 99% of construction and retail workers in Cambodia are not covered by any social insurance (UNDP, 2023). A report by Alatas and Newhouse (2010) demonstrates that without a social security net, informal labourers face daily uncertainty where unexpected issues like illness or job loss can lead to serious consequences. Thus, this vulnerability creates a strong motivation to seek formal employment, especially in jobs that engage with the National Social Security Fund (NSSF) or similar programs. Evidence from Cambodia reveals that informal workers seek social protection associated with formal employment. For instance, some tuk-tuk drivers in Phnom Penh have actively tried to enrol in the National Social Security Fund (NSSF) health scheme, even though the program only applicable to individuals in the formal sectors (UNDP, 2023).

2.3.2 Social Motivations

In Cambodia, formal employment and the dimensions of social legitimacy and the status associated with it shape informal workers. According to Lawreniuk's (2019) ethnographic study of garment workers in Phnom Penh, although workplaces in export factories often present workers with inhumane conditions, formal employment held respect and status in the garment workers' communities. Besides that, Derks (2008) explains that young Cambodians from provincial villages practically consider formal sector work to be successful and modern, especially when associated with international firms or organisations. Furthermore, social networks may be another source of motivation for informal workers to formalise work. Tanaka (2023) states that formal jobs create access to professional networks, including industry associations and connections to clients, that the informal worker typically cannot access. For example, a formally employed construction worker may be able to develop better affiliations with a wider professional community, such as engineers in their sector, including those in suburbs, local unions and even colleagues with training and skills development that informal workers cannot access. A tuk-tuk driver, for example, who would have membership of an

official drivers' association or ride-hailing platform would have a level of community or support and collective good that untethered tuk-tuk drivers would not have, but for a rapidly changing economy like Cambodia that is adopting markets into a new capitalistic environment which makes challenged to long-term career or business development options even harder. Moreover, Williams and Lansky (2013) provided a strong explanatory thesis that people with significant social connections among those working in the formal labour sector were more likely to secure formal employment. For these same participants, their significant relationships disseminated information about formal employment and also established social pressure to enter the workforce. Additionally, qualitative studies conducted by Nuon and Serrano (2010) indicated that formal employment represented increased respect within structured family environments, allowing people to have more decision-making power internally within the household. This was particularly attractive, especially for young women in Cambodia, where formal employment represented a pathway towards autonomy in a very male patriarchal identity.

2.3.3 Cultural Motivations

In Cambodia, employment preferences are deeply rooted in traditional values that revolve around stability and security, particularly for older people who have lived through political situations and economic realities. McKay et al. (2018) noted that for many people in Cambodia, a stable job means financial security and contributes to the broader culture of being recognized and respected as a dignified person. Although there will naturally be more flexible and 'new' ways of working with a greater focus on careers, from the time-honoured professions that have ruled over careers in the past, younger generations will undoubtedly have cultural perceptions that will influence how they manage their working arrangements and choices in their working life. Similarly, religious values can also have a significant influence on decisions made about employment formalisation. Friend (2015) studied six provinces in Cambodia with the finding that 62% of people in formal employment reported that Buddhist values were important factors in their career decisions, while only 28% of those working in informal employment reported similarly. As identified in the research from Thai and Turkina (2012), the implications of Buddhism often are principles such as sufficient livelihood and ethical business practices for Cambodia's informal workers who are motivated to formalize their employment. This mirrors the desire for business practice to align with people's moral and spiritual values. Thus, focus on transparency and social good demonstrates the connection between religiosity and

participation in the formal economy. In addition to religiosity, we must also take cultural expectations of femininity and masculinity into account because they continue to shape how gender roles are formalized. Women prefer informal jobs, as it provides flexibility and allows women to juggle responsibilities of domestic work (Derks, 2008). In modernity, however, cultural expectations are becoming more progressive in the sense that women are now seen as valued for their financial independence in addition to their more traditional roles of care and nurturing for their families. A qualitative study on perceptions of females working in the garment and construction industries in Cambodia by Weimann-Sandig (2021) visualizes that Cambodian women are reportedly family-oriented, and formal employment that provides a stable income is paramount in support of improving their families' standard of living, which is ideal for a woman. Traditionally in Cambodia, masculinity and provider identity are fundamental attributes of men's culture. Men's social standing is elevated when men are formally employed. Adler (2007) found that construction workers interested in formalizing their jobs experienced improvement in marriage prospects. The social significance of this trend is that even families wanted something tangible as evidence of financial stability (an employment contract) when considering a potential marriage partner. Social and cultural norms have a significant influence on the employment decisions of individuals in Cambodia.

2.3.4 Psychological Motivations

The psychological components of formalization involve identity and well-being as indicators. For many Cambodian workers, formalization fulfils psychological needs that provide structure and predictability in their work world. This stability may also help some employees develop their identity in ways that could possibly be advantageous to their physical and psychological well-being. Huang et al. (2018) argue formal employment provides some psychological security as the roles, rules and responsibilities are explicitly laid out. This lack of ambiguity can help individuals feel confident and secure, thereby reducing uncertainty in the workplace. Additionally, workers seeking promotion and training opportunities especially those who appear to have a more positive regard for formal employment. A study by McKay et al. (2018) notes that this perspective is likely appealing to young workers entering the labour market in Cambodia's competitive environment, and they are seeking opportunities to grow personally and professionally, while also shaping their professional identities. Moreover, providing consistently structured schedules and minimizing constant decision-making through delineated roles reduces anxiety related to decisions. Schneider and Harknett (2019) explain that workers

with predictable schedules report lower levels of psychological distress than workers with unpredictable schedules. Nevertheless, it must be stated that in Cambodia, the decision to become valuable in the formal economy did not just "make financial sense" but also guided by other personal motivations such as stability, professional and personal development, and a break from the daily grind.

2.4 Barriers to Employment Formalization

2.4.1 Economic and Structural Barriers

The economic aspects of employment formalization pose significant challenges for informal workers and micro-entrepreneurs in Cambodia. The World Bank (2019) noted that in Cambodia in 2019, business registration costs up to 150% of the average income per employed person (including formal and informal costs), which makes it financially impossible for workers to formalize, particularly workers from informal sectors who earn considerably less than formal workers. They also noted that the registration of a business is exacerbated by workers needing to address multiple administrative steps with different government organizations. This commitment adds another layer of obstacles for workers seeking to transfer to formal employment. The accessibility of credit is another major constraint for informal workers. For example, informal workers face challenges accessing loans from a formal financial institution because they are unable to provide formal documentation (proof of income, business registration) required by these financial institutions. The lack of documentation limits the informal worker's ability to present themselves as potentially creditworthy to local institutions for credit-seeking assistance. The data collected from the FinScope Consumer Survey Cambodia indicate that only 59% of adult Cambodians have access to financial services, and this financial exclusion has affected a large number of informal workers who are the most excluded from the financial system (UNCDF, 2016). As a result, informal workers rely on either informal lending networks or microfinance institutions that lend at higher interest rates, which turns workers into a cycle of financial debt and makes it more difficult to achieve financial stability. Williams et al. (2015) discussed formalizing businesses easier in Cambodia, but many business owners see the formalization process as bureaucratic and confusing. Their findings also describe formalizing, or those who are unaware of formalizing, are workers and business owners who constitute a large portion of informal workers. In addition, Williams et al. (2015) noted informal business owners were not aware of which government agencies to

contact or what documents were required to formalize their business. The International Labour Organization (2017) noted that 80% of informal business owners in Cambodia were afraid of taxes for not formally registering their business. Many informal labourers stated that if they formalized they would make less profit due to taxes, and additional costs associated with complying with regulations.

2.4.2 Social Constraints

Informal employment in Cambodia is deeply rooted in complex social networks, which possess both strengths and weaknesses. Industrially Developing Countries (2011) state that informal workers in Cambodia look to community-based networks (i.e. not government) and support to help with employment-related issues, as community-based support structures are more valued than government programs that can be deemed exploitative. Distrust in institutionalized Cambodian systems subsequently increased. Jack (2020) shows that as tuk-tuk drivers in Phnom Penh working in informal parking groups based on kinship or long-term personal connections, these networks serve as a "socio-spatial installed base"; connecting drivers to important aspects of local social life – if a driver gets ill or hurt, their network ropes in and supports them with the social goods needed to ensure their means of livelihood is supported. These relationships assist local drivers to operate in the increasingly challenging market space, while also creating social dependencies that prevent them, and others, from formalizing their employment. Brickell (2011) highlights that close community-based networks support the daily survival of informal workers in Cambodia when all other avenues have been exhausted. These networks actively provide support when someone is in need, through family, friends or other forms of support. It is this relational support that reaches an informal worker in Cambodia when they require important services; support services that often include an immediate needs for emergency funds or formal referral to another job, also offering childcare to cover work time or family commitments. When the next work security for informal workers is formalized safety nets and social support networks become exceedingly important for Cambodian workers, especially for these community-based support systems. However, the move to formal employment, which often involves geographic mobility or inflexible work schedules, also leaves individuals not only economically vulnerable but socially and emotionally isolated from their networks. Additionally, intergenerational patterns can also impact employment formalization decision-making. Research by the OECD Social Institutions and Gender Index shows that in Cambodia, the employment choices people make are influenced by the

employment patterns of parents or grandparents, the work being formal or informal (OECD, 2019). In a similar vein, McKay et al. (2018) identify that young people entering the labour market experience pressure to participate in family businesses over pursuing formal schooling or vocational training. Kaiser et al. (2025) note that approximately 63% of informal workers share their earnings with members of their extended family. This presents a certain degree of collective resistance to formal taxation responsibilities. Informal workers may prioritize family needs over formal financial obligations. This can then semi-regularise informality in labour force. Furthermore, is it worth noting that the gender inequality in Cambodia presents a key barrier to formalization. Women face serious barriers in their access to formal employment and opportunity from immense amounts of unpaid domestic work. Research indicates that while women report about 188 minutes per day in unpaid domestic work, men report only 18 minutes (NIS, 2019). This difference infers that while both men and women are technically classified with significant unpaid domestic work, gender inequality norms give evidence that women are expected to do much more unpaid domestic work as 'normal.' The United Nations Development Programme (2025) also supports that gendered responsibilities are significant barriers to women's movement from the informal to the formal economy.

2.4.3 Cultural Constraints

In Cambodia, employment preferences are influenced by the historical lens of culture, as people consider stability or security in jobs and this consideration is possibly driven more heavily by the older generation, given the political unrest and economic upheaval they have experienced. McKay et al. (2018) found that having a stable job is of greater importance to many Cambodians as stability not only manifests economic freedom and security, but also it contributes to a greater culture of being recognized and upheld as someone who is dignified. Nevertheless, the younger generations will naturally be attracted to flexible work models and unencumbered careers that offer different possibilities from the historical profession norms that have dominated professional careers in the past. Over time, it is expected that their cultural perceptions will influence and frame how they engage work/job arrangements or established working choices in their professional lives. Similar to historical values, religious values can influence decisions that surround employment formalization. Friend (2015) surveyed six provinces in Cambodia and found that 62% of people who were formally employed stated that Buddhist values shaped the way they made decisions about their career and work choices, while only 28% informally employed stated it did. Public social values, as demonstrated in research

by Thai and Turkina (2012), can shape decisions to formalize employment contracts, even in a country like Cambodia where Buddhism dominates religions and notions like "sufficiency economy" or ethically participating in business will encourage informal workers to formalize their jobs. It shows the desire to have business practices that are aligned with people's moral and spiritual values. Hence, if we see concerns for transparency and social good, it makes sense that the link between religiosity and engagement in the formal economy is clearer. We also need to think about the cultural expectations of femininity and masculinity, and how those expectations work to formalize gender roles. Women are opting for informal jobs because they offer flexibility to complete their domestic work (Derks, 2008). However, in modern society, cultural expectations are beginning to include women's financial independence, as an addition to their traditional role in family care. A qualitative study of female perceptions in garment and construction sectors in Cambodia from Weimann-Sandig (2021) show that Cambodian women are inherently more family-oriented, and earning stable income through formal employment is important for improving their family's circumstances, an ideal circumstance for women. In Cambodia, culture is to be masculine, with men assuming the provider identity. Men's social status is improved with formal self-employment. Adler (2007) found that construction workers' marriage prospects improved with the formalization of their jobs. This change signifies a social transformation, with families now needing evidence of employment and integration of a contract into the person's life to consider them as a marriage partner. Cultural orientation plays a large role in determining individual employment choice in Cambodia.

2.4.4 Psychological Constraints

While psychological factors play an crucial role in formalization decisions, they are frequently ignored by policymakers. In Cambodia, many informal economy workers view flexibility and autonomy as a valuable aspect of their work (Juárez- García, 2018). This is arguably reinforced by the work of Kusakabe (2006), where she shows via her study of street vendors in Cambodia that, for informal workers, managing their own schedules and working conditions were their first concerns, revealing the freedom they sought on a daily basis. Kusakabe found that approximately 83% of her participants identified potential loss of autonomy as one factor limiting their transition from informal to formal employment, regardless of the potential benefits of access to social protections or higher wages. Thus, this illustrates how both economic incentives and informal workers value the flexibility and autonomy of the informal system, which influence decisions surrounding formal employment. The International Labour

Organization (ILO) (2020) notes that several workers in Cambodia experienced formalization as a high-risk shift, with vague supportive resources. Their survey results indicated that individuals with higher risk aversion were less likely to formalize their jobs, especially when clear information indicated economic benefits. However, it is important to note that, in Cambodia, identity and status represent another psychological dimension for formalization: for several Cambodian workers in traditional occupations, informal jobs were highly connected with their personal and social identity. Jack (2020) argues that moving toward formal employment can be construed as shifting away from the status and social ties that are associated with their jobs and personal and social identities. In theory, one would. Happily remain within the informal system, given it is connected deeply with both personal values and social belonging.

2.5 Comparative Studies from other Developing Economies

Thailand

Thailand is no different from Cambodia, and it still has a large share of informal work. There have been significant steps taken to assist people in entering formal employment. KPMG (2025) shows that in an attempt to reach its people again and revitalize the economy and key sectors, the government offered financial incentives such as targeted tax breaks that provide encouragement for Thai professionals in working abroad or not within the formal system to return and re-enter the formal workforce. This particular behaviour reported is noted to be the most effective for certain segments of the workforce in Thailand. The ILO (2025) also suggested in their report of new ways to deal with informality in Asia and the Pacific of the social protection coverage offered in Thailand has now also extended to groups such as domestic workers who have previously been excluded from social protection systems learning their value to the economy and society overall. In addition, the non-compulsory contributions made to the Social Security Fund (SSF) allows self-employed people to access social security benefits, which allows self-employed people to access social security benefits, with the opportunity to potentially get indemnity during illness or injury (Komin et al., 2024). It is important to understand that by highlighting distinct advantages such as the instant and specific benefits of formalization can build trust and motivate more informal workers to engage. Additionally, what also improved employment and wages is investing in women's education. Investment in women's education has successfully helped many informal workers move into

formal and secure jobs in Thailand (World Bank 2023). The Equitable Education Fund (EEF) (2024) stated, vocational training promotes skills to further build human capital for on demand occupation needs through formalization in Thailand. Formalization strategies, also need to acknowledge the social structures already in existence. In terms of Thailand and Cambodia, World Bank (2023), stated that informal work often coincides with the work cycle of older women who are both earning an income and caregiving. It highlights the relevance of formal options of employment with more flexibility or support for these dual tasks.

Vietnam

Vietnam has made impressive strides in reducing informal employment in a short time span. This success is driven by policies to formalize micro and small enterprises and expand the coverage of social security. Vietnam's example shows how focusing on individuals' needs can support a transition of workers from informal to formal employment. The ILO (2024) has documented initiatives in Vietnam to simplify the registration of micro and small enterprises, and offer tax credits and other incentives to formalize a broader base of business activities in the country. These policies were targeted to facilitate the transition of informal workers and micro and small enterprises into a formal framework. While employment in the formal economy only provides a small increase in earnings compared to informal work, it is still an incentive to pursue more stable work for individuals considering their choices for longer term employment. Furthermore, with improved conditions of work, access to social protection and legal security in the formal system, formal employment will provide a more secure and sustainable transition to the next stage of working lives for individuals moving out of informal employment (Dabla-Norris et al., 2020). As reported by ILO (2024), Vietnam proactively worked to enhance the voice of workers through the increasing tripartite debate mechanism and by recognizing and facilitating sectoral collective bargaining, which recognizes the continued need for worker representation to facilitate improving work conditions, and also encourages informal workers to formalize their status in the labour market. Additionally, the government of Vietnam made considerable efforts to educate informal workers about their rights in the legal system, and the benefits of working formally. The same report goes on to say, in terms of mitigating this information gap, it gives workers more control over their employment decisions, and also gives workers protection and benefits associated with formal alternative work arrangements.

Indonesia

Indonesia is the largest economy in Southeast Asia. This country has utilized a number of different approaches to tackle its large informal employment sector, including an emphasis on industrialization, skills development and social protection (Russell et al., 2025). UNDP (2025) notes, Indonesia has adopted industrial policies that aim at improving the quality of life for informal workers through non-formal employment growth, with the aim to help people move from agriculture and informal jobs to formal jobs that provide more stable and sustainable livelihoods. OECD (2020) outlines the employment and skill strategies in Indonesia, demonstrating that the country has encouraged incentives in the special economic zone with the purpose of creating more formal jobs in the economy. In addition, the government of Indonesia has also made substantial effort on technical vocational education and training (TVET) programs. These programs are implemented to secure greater employability of the labour force, benefitting more so to workers of the informal sector (Krisnadi, 2023). The World Economic Forum (2025) identifies that community training centers (BLK Komunitas) are being created to meet skills development needs in underserved areas in Indonesia, helping train informal workers to obtain the qualifications required for formal employment. The initiative is beneficial not only in supporting informal workers to fully join the formal system, but also increased the amount of formal employment rates across the whole nation.

Malaysia

The economic motivations for formalization in Malaysia are a consequence of the country's changing social protection context. The World Bank's comprehensive study shows that when we compare wages for formally employed workers versus informal workers, formally employed workers earn more; however, the "formality premium" has decreased from 43.4% in 2009 to 23.2% in 2022 (Ghorpade et al., 2024); even to suggest that economic motivations can formalize workers on their own seems naïve, there need to be more complex mechanisms designed that take into account on diverse and interrelated financial needs of workers. Cheah (2024) stated, "Possibly the best economic intervention coming from Malaysia has been the deliberate extension of existing social insurance schemes to informal workers". The most significant of the schemes is i-Saraan, led by the Employees Provident Fund, which allows self-employed workers and gig workers to receive matching contributions from the government of up to 20% (from 15% in 2025) with an annual maximum of RM500. The explicit purpose

of i-Saraan is to facilitate retirement savings for self-employed workers and gig workers, while temporarily providing a financial incentive (Cheah, 2024). As indicated by Chua (2025), the program employs a behavioural economics approach, which has proven to be a smart decision. Instead of enforcing mandatory contributions, i-Saraan provides positive incentives by distributing matching funds and allows them to lessen the economic burden of saving for retirement. If workers opt into the program and make a clear commitment to their retirement contribution, they are essentially doubling their retirement savings. As of the first half of 2023, government matching contributions have been shared to the value of RM28 million to 211,361 members. It is difficult to argue that the uptake is impressive for a voluntary program. This reinforces the idea that informal workers often prioritize immediate income over long-term savings, making qualified government matching contributions a potentially strong motivator (Chua, 2025). Furthermore, PERKESO demonstrates that with similar social security benefits in Malaysia, self-employment could be regarded as another distinct segment of Malaysia's formalization agenda. Since its implementation in 2017, the Self-Employment Social Security Scheme (SESSS) was initially intended to be mandatory for e-hailing drivers, and has been expanded to cover over 20 segments, including goods transportation, agriculture, and food delivery (PERKESO, n.d). BERNAMA (2021) states the government took a clever approach by choosing to subsidize 80% of the contributions and letting the worker pay 20%, showing they understand the economic constraints imposed on informal workers. The subsidization of part of the contribution is a landmark way to remove a fundamental economic barrier that has prevented informal workers from affording full social insurance and has forced them to survive on subsistence earnings. Ghorpade et al (2024) recognizes that many informal workers carry the weight of income stability (income volatility and uncertainty), meaning that strictly defined contribution demands can be put considerable strain on the workers. By subsidizing the majority of the cost, the government eliminates the financial barrier and provides the structure for workers to actively participate in formal protections. Furthermore, the World Bank report also endorses mandating that contributions for retirement savings be collected automatically from earnings on digital platforms, as traditional methods of collecting employee contributions do not account for the irregular payment pattern of gig work. At a minimum, there is some empirical evidence suggesting informal workers are willing to pay for social insurance with the lessening of barriers to payment. Research conducted by the World Bank with digital freelancers, using vignette-based methodology, revealed that, astonishingly, 80.7% to 85.5%

indicated willingness to forego 0.2% to 0.5% of their income to receive the unemployment insurance benefit. This strongly suggests that the notion that informal workers are unwilling to pay, in terms of contributions, should be challenged, as the issue is with the mechanism of contributions, not the willingness of workers to contribute. Additionally, social processes play a significant role in decisions around formalization, particularly the influence of family and social networks. Ruslan and Sukma (2023) demonstrated that father-related mobility and its effect on the job transition of children illustrate the intergenerational transmission effect. This intergenerational transmission can be reframed using the example that formalization strategies are better suited to family-based behavioural strategies, and business behaviour rather than focusing on individual workers. For example, Arfa (2024) cites the Malaysian Peladang-i (Farmers' Family Smart Card) program as a successful example of a family-based approach to embed flexibility. The Farmers' Family Smart Card not only facilitates the process to make digital payments but also provides each approved person in the insurance (Takaful Kasih Plus) with coverage up to RM5,000. In providing insurance not only for the farmer, but also providing coverage for dependents, resembling a family approach to protection rather than formalizing individuals, the program intentionally incorporates social motivators that usually inform decision-making for households in Malaysia. As the author noted, they agreed with its effectiveness based on Peladang-i's perceived success in cultural contexts within Malaysia around household structures where choices are made collectively, although the details are handled individually. In November 2021, the program accepted 2,877 farmers surpassing the initial target of 2,000, demonstrating that household formalization initiative can be effective in addressing the social aspect for social protection uptake. As Ghorpade et al. (2024) also discussed in their report on informal employment in Malaysia, leveraging the "associations and peer networks of informal workers to promote regular contributions and commitments" as well as using social influence and collective mobilization to overcome the deterrents of formalizing for a single individual. This tactic also echoed the research of Wango, (2024) who expects informal workers often benefit from informal arrangements for supports and collective savings schemes. While Malaysia's approach is based upon the working behaviours of its workers, it is not to dispel these existing structures of support. The concept of promoting collective microinsurance models accepts that group risk sharing aligns with the coping strategies that informal workers already have in place. Additionally, culturally, Malaysia is not dissimilar to neighboring Southeast Asian nations, Cambodia, Thailand, Vietnam and Laos, with cultural

ideas around work flexibility possibly constituting challenges to formalization in Malaysia. The World Bank qualitative evaluations show that informal workers value "flexibility, autonomy, and the ability to earn an income by working more but do not value risks and limited social insurance coverage" (Ghorpade et al., 2024). While this suggests that successful formalization strategies will need to retain aspects that workers value as inherent to informal work, they will need to mitigate aspects that workers value less. Additionally, research related to women working in informal sectors suggests flexibility allowed workers to balance income generation with care work (Othman et al., 2022); thus this indicate that formalization strategies will need to build flexibility not take it away. Another point to consider, in Malaysia, psychological factors related to trust, notably trust in government, are key factors influencing formalization success. Ghorpade et al. (2024) suggest that convening bodies could organize all stakeholders, such as government agencies, employers, platforms, and workers' organizations, while acknowledging that building trust should occur over time and needs to be based on continual dialogue and transparent engagement. For example, BERNAMA (2021) reports on SESSS that government-subsidized initiatives that have government contributing 80% of indemnity payment costs help to build trust through acts of its principle of 'caring' demonstrating working of having the relevant public policies for what it provides to informal workers as direct financial contributions giving weight as evidence of support for informal workers. More importantly research has demonstrated that occupational identity plays an important role in determining preference for formalization, as demonstrated in the research of Xie et al. (2022) on platform workers where the workers had concerns occupational stigma and social status that highlight that formalization strategies may need to accommodate barriers associated with identity, in addition to economic considerations. For instance, the Malaysian government designation of e-hailing and delivery work as recognized occupations that require social protection is certainly validating identities. Also, as well, Nungsari et al. (2020) identified in their research, to alleviate procedural barriers and for informal workers, Malaysia has also established online platforms such as the MATRIX system for SESSS contributions represent technological innovations that focus on remedying psychological barriers to participation or access into social protection to ensure that it is recognized as legitimate work. These online platforms offer user-oriented digital interfaces that simplify access to the system, leveraging the least perceived bureaucratic aspect of the technological solutions while still providing institutional efficiency and administrative consistency.

Laos

Traditional economic models of formalization assume that workers will choose to enter formal employment when the costs of formal work are lower than the benefits. However, experience in the Lao context shows that workers' economic decision-making is infinitely more complex than simply weighing the costs and benefits when making decisions (Dell'Anno, 2022). The most successful formalization initiatives in Laos recognized that informal workers often use different time horizons, risk calculations, and value different aspects of financial gain than formal sector planners are used to. One successful approach in Laos has been to introduce graduated benefit systems, which allow workers to slowly gain formal sector benefits rather than requiring a complete transition (World Bank, 2013). In addition to creating opportunities, Lao policies have shown that many informal workers cannot afford the immediate costs of formalization including registration fees, taxes, and social security contributions, even though these costs promote significant benefits in the long run. By providing pathways to partial formalization, Lao policies enable workers to maintain some form of income security while also continuing to access formal sector benefits through different, incremental measures. The concept of job security for informal workers is entirely different from that for formal workers. For several informal labourers in Laos, flexibility and autonomy are forms of security that cannot be provided by formal employment (Sisavath, 2021). Consequently, successful strategies of formalization have focused on creating formal employment possibilities that preserve worker autonomy while offering greater security through participation in social protection systems. The formalization strategies adopted in Laos have been successful in acknowledging workers' desire for wage predictability. Instead of merely advocating for formal employment for its theoretical wage security, the formalization programs implemented in Laos have explicitly demonstrated how social protection systems in the formal economy can provide income security (Sychareun et al., 2016) during periods of sickness, economic downturns, or any other life transition. This demonstrates recognition that informal workers generally appreciate flexibility over predictability, and formalization needs to enhance informal workers' economic agency, not limit it. Finally, social security schemes extended to informal economy workers represent one of the more innovative models of formalization in Laos. Instead of attempting a complete formalization approach before accessing social protection, informal labour initiatives in Laos have created mechanisms for informal economy workers to benefit from specific benefits while continuing to work informally. This approach embodies the

principles discussed in ILO Recommendation No. 204 (2015), which extends social protection as a pathway to formalization. According to Sychareun et al. (2016), healthcare access served as a critical entry point for informal workers interacting with formal institutions, creating positive perceived associations that enabled them to move on to formalization steps. These case examples demonstrate the importance of understanding workers' immediate needs and priorities. Many informal workers value healthcare access and coverage for economic shocks over long-term benefits like pensions. By providing immediate, tangible benefits related to workers' immediate concerns, Lao formalization strategies created positive perceived associations with formal sector institutions, which enabled future engagement. Additionally, the influence of social networks on formalization decisions is one of the least examined aspects of entry into formal labour. However, Dell'Anno (2022) synthesized informal economy theories that identify social capital as a key component of workers' decision-making processes, emphasizing the critical role of societal networks in the process of formalization and engagement with formal economic systems. Lao experiences show that engagement with former informal workers from a worker's social network, such as family, friends, and community leaders. Those who underwent a similar process may have a significant influence on the decisions surrounding engagement in the formal economy. Successful formalization strategies focused on developing and supporting peer networks that can provide both information and social support. Community-based processes in Laos have been particularly effective at overcoming information asymmetries that can deter formalization (World Bank, 2013). Informal workers often lack access to information regarding the procedures, costs, and benefits of formalization. Community-based formalization programs have also provided a trusted and current source of information that workers need to address their specific concerns and situations, leveraging existing networks and organizations to establish a relevant community framework (World Bank, 2013). While educational attainment is indeed important to a worker's prospects of entering formal employment, there is more to the relationship between education and formal employment. Lao initiatives have also recognized that, while important skills and experiences enable informal workers to be productive participants in the formal economy, the lack of recognition for informal workers hinders their path to formal employment (Sisavath, 2021). Successful programs, therefore, have gone beyond simple skill matching to focus on skills recognition and certification processes that confirm competencies they already have, and enable ongoing skills development. A new and innovative approach in

Laos has also been combining skills development initiatives with formalization. Effective initiatives have established integrated pathways for workers to develop while progressing through the formalization process, rather than developing the formalization and education separately in the policy space (World Bank, 2013). This approach recognizes that many informal workers are not only concerned with stability in their livelihoods but also have a stake in and hope for pursuing some form of development and promotion. Ly (2025) demonstrated that Cambodian workers changed careers based on their training opportunities and their ability to adapt to the changing culture of organizations. Similar integrated informal and formal approaches may be effective in Cambodia. Moreover, workers' openness to formalization is shaped by their cultural values related to work, authority, and their relationship with institutions. The successful formalization efforts in Laos have emphasized alignment with traditional labor values, rather than opposition to them. For instance, Dell'Anno (2022) indicates that capacity-based formalization mechanisms, which approach traditional labour expectations of respect for the worker's dignity and autonomy, contributed to the success of the program. The cultural approach highlighted a broader recognition that formalization programs need to work and exist respectfully within social constructs, rather than seeking to replace them. One successful method of combining an informal and formal system was the merging of the non-traditional community-driven mutual aid/cooperative framework and formal social protection institutions. Successful programs did not disrupt existing community-oriented frameworks and mechanisms; instead, they built upon and formalized these frameworks and mechanisms to create linkages between the formal and informal (World Bank, 2013). This perspective recognizes that many workers value the sense of reciprocal relationships and community accountability often associated with traditional labour relationships. Public awareness campaigns in Laos have resonated well when the message emphasizes how formalization can support workers' own goals and values, rather than requiring them to compromise their values. Saying that formal sector benefits can support workers' desires to support their families, thereby enhancing community contributions and pursuing personal goals, transitioned workers' perception of formalization from constraint to opportunity. As noted earlier, many informal workers have experienced negative effects related to formalization, including perceived corruption, inefficiency and disrespect (Dike, 2019). Thus, successful Lao formalization experience has focused primarily on rebuilding trust by providing transparent, efficient, and respectful service delivery. Public awareness campaigns that have

been particularly effective have developed service centers that offer workers (and sometimes employers) worker-friendly, supportive environments, where workers can obtain information and support for formalization in professional yet accessible manner. Based on these services, staff members familiar with informal sector work can provide culturally reflective, respectful and meaningful guidance and support (World Bank, 2013). Service centers communicate respect for workers' time, knowledge and dignity and have been effective in counteracting psychological wariness towards formalization.

Synthesizing Regional Approaches in Southeast-Asia

Formalization strategies in Thailand, Vietnam, Indonesia, Malaysia and Laos have similar themes. In analyzing the five countries, three core themes emerged from their respective strategies: economic incentives, extending social protections and skills development. All five countries utilize financial mechanisms to reduce the formalization costs. For instance, Thailand offers tax incentives for returning professionals, Vietnam offers tax credits for micro-enterprises, Malaysia matches contributions for i-Saraan and non-wage earners (no less than 20%), and Indonesia offers special economic zones tax incentives. Social protection extends across all five countries to previously excluded groups, for example, although Thailand excluded domestic workers from the Social Security Fund, the government funded their contributions; in Malaysia an individual can pay into the Self-Employment Social Security Scheme (SESSS) and have the government subsidize approximately 80% of their contribution across 20+ sub sectors of the employment relationship. Vietnam adopted tripartite mechanisms to strengthen the voice of workers. In addition, considering a coordinated approach to skills development, while Indonesia has community training centers (BLK Kommunitas), Thailand has developed vocational pathways for women and their associated education investments. Laos used coordination on how skills pathways and formalization pathways can intersect and integrate, for instance, that competencies already acquired (with no retraining) are recognized, rather than embarking on a fresh retraining approach. However, there are key differences in implementation practices; for example, Vietnam committed to a rapid timeline and comprehensive formalization via a process of simplified enterprise registration, and Laos chose to develop graduated benefits systems. Malaysia leveraged its existing advanced digital systems through the MATRIX system, while others had services delivered through a traditional service provider pathway. Although countries involved considered cultural sensitivity

differently, Laos prioritized the socio-cultural values related to traditional labour and collective and community-based, Malaysia respected socio-cultural values in their Family-based Trade. Implemented a Family smart card recognizing and validating collective decision-making practices, and Thailand was mindful of how informal work overlapped with women's responsibilities for ongoing care responsibilities for children and elder parents. Based on the cross-country analysis, three basic principles for success inform Cambodia's formalization agenda. Firstly, behavioural economics use is essential as the success stories show that when people (informal workers) realize that they will operate under a different set of time horizons, risk calculations and value systems than formal sector workers, informal workers can be engaged in contributing to social protection programs. Similarly, Malaysia's voluntary i-Saraan program attracted 211,361 members who were engaged positively with incentives, rather than mandatory contributions. Additionally, research has revealed that between 80.7 and 85.5% of digital freelancers will contribute 0.2-0.5% of their income to unemployment insurance for some formal agreement. Second, trust-building mechanisms are necessary as all successful initiatives strongly relied on transparent and respectful service delivery and affirmed the government's commitment to address the needs of informal workers through significant financial involvement. For example, an 80 per cent SESSS contribution subsidization in Malaysia and government workers' service centres that provide culturally reflective and ethically tailored guidance in Laos have been used to illustrate these principles. Third, the preservation of flexibility is seen as non-negotiable, with all successful formalization strategies preserving some autonomy for informal workers and value-added security benefits for formalizing; research conducted across many countries provides evidence that informal workers ultimately want "flexibility, autonomy, and income-earning ability", but they also want a way to minimize "risks and lack of social insurance coverage". Given the experience in the region above, for Cambodia it can probably take (some of) the incentives from Malaysia and graduated formalization from Laos for example matching contributions to the voluntary social protections and flexible about the choices of the workers as they are making choices, supporting a community level strategy, taking into account the historic social networks in Cambodia, and thinking in terms of simplifying the uses of digital that are oriented away from bureaucracy (time wasting) and are building institutional trust with the community by using their transparent service delivery and the commitment of significant government resources.

2.6 Gendered Dimensions of Informal Employment

The United Nations in Cambodia noted in its report on "Gender Equality Deep-Dive for Cambodia" (2022), that analyses of women's informal employment in Cambodia require the use of multiple theoretical lenses. Gender and Development (GAD) theory examines how gender roles are socially created and influence women's participation in the economy. This theoretical perspective is particularly important in Cambodia, where gender-based codes of conduct, such as the Chbab Srey are still in use alongside the revised formal university curriculum that prescribes gender norms for women's roles. In addition, the literature on the informal economy advances in this analysis, expanding the concept of informality as a strategy for survival and a form of economic exclusion. Carwright and Igudia (2024) assert that informal work is not a result of women wanting flexibility on the labour supply side, but a result of structural constraints on the demand side. The United Nations in Cambodia also pointed out a recent (2022) analysis that revealed the disadvantages women face in informal work, in part related to access to formal sector employment and the need to reconcile productive work with unpaid care work. One important individual-level variable impacting women's opportunities in the labour market in Cambodia is education level. Gavalyugova and Cunningham (2020) found that, although there has been an overall general growth in the gender gap in primary and secondary education, when women access higher education, the cumulative education can often cause additional barriers, particularly for skills-based training. According to the 2016 Cambodian Socio-Economic survey, it was reported that only 46.1% of women aged 25 years and over had completed at least primary education, compared to 63.5% of men. Studies have shown that, in places where garment jobs available, there is less retention of girls after primary schooling as girls expected to enter less skilled low-skilled manufacturing jobs (Gavalyugova and Cunningham, 2020). Camps (2025) has an examination of Cambodian TVET (technical vocational education and training) which explores the barriers to opportunities for women to engage in skills development programs, including: limited flexibility of learning programs; concentrations of training in primary cities; and inadequate training programs that do not align with labour market needs. Kusakabe and Malika (2004) point out that levels of sex segregation with vocational training participation signal the societal perception of appropriate work for women and men. However, UN Cambodia (2022) stated that unpaid care work may be the single biggest constraint for women's participation in the formal labour market in Cambodia. Time-use data reveals a staggering inequality in the domestic and care work done by men and

women in Cambodia. Women engage in an average of 188 minutes of unpaid domestic work per day; men on the other hand, engage in 18 minutes. This unequal distribution is the highest amount of reported inequality in the world, second only to Mali. Furthermore, motherhood is a fortunate constraint to women's engagement in formal employment opportunities. Gavalyugova and Cunningham (2020) demonstrated that the probability of a woman being engaged in non-wage work increases substantially when she has her first baby; however women still remain at an above '10 percent' of probability of non-wage work compared to men's non-wage work probability. Women's wages are decreased when they have subsequent children, men's wages increase, resulting in cumulative disadvantages as women's wages plateau and inequalities are greater than '30 per cent' after she has their third child. These caregiving disadvantages compound with lack of childcare infrastructure. Similarly, limited access to social protection is a significant barrier to women's economic security and participation in formal sector. For example, UNDP Cambodia (2023) reported that not only did informality historically exclude formal workers from the social protection system for Cambodia, but also that women found themselves uniquely vulnerable (87.6 percent of informal workers are women). Aina (2025) elaborated on her research on the assessment of potential taxation strategies and policy interventions for the informally economically related Nigeria, that only 30 percent of the population in Cambodia is formally 'banked', let alone that only some 60 percent have access to formal financial services. Microfinance presents a complex mixture of opportunities and constraints. Although leading microfinance institutions show a higher number of women's loans compared to men's loans, this funding is often associated with considerable collateral and complicated procedures. Furthermore, although women's agency in controlling household finances may be a source of stress, it represents a certain degree of empowerment that can aggravate the financial burden of MFI debt, even to the point of being debilitating for some households (UNDP Cambodia, 2025). While this is promising, recent policy initiatives are attempting to close these gaps; for instance, the Credit Guarantee Corporation of Cambodia now has a Women Entrepreneurs Guarantee Scheme, which includes specifications to support projects by women-owned enterprises. Similarly, the National Social Security Fund has increased efforts to register entertainment workers, enabling them to be considered for health coverage, and these workers are often considered particularly vulnerable (UNDP Cambodia, 2025). While these are promising signs, they have very limited reach and effectiveness relative to the size of the informal sector.

2.7 Policy and Regulatory Landscape in Cambodia

2.7.1 Existing Policies on Formalization and its Limitations

First put forward in 1997, and revised in 2007, the labour law in Cambodia was intended to define worker rights through the regulation of recognised employment relationships, with the narrow focus being on contract employment. Indeed, the labour laws omit a large part of the Cambodian working population involved in employment relations that are informal in nature, including a considerable number of street sellers, self-employed individuals, construction workers, and family-run businesses (Adler, 2007). These workers are not marginal ones; they are the majority of workers in the country, and they support their families through means of income that are neither legal nor coherent. Even though informal and household based labourers make significant contributions to the Cambodian economy, they are working outside of the law and without the safeguards the law should provide. In addition, a critical analysis of the Cambodian labour law points out that the law does not acknowledge the full range of work that the majority of Cambodians do to support their family and self. As Brickell et al. (2018, p. 42) suggest, "Cambodia's labour regulations continue to be drafted on the basis of factory based, wage employment as the normative model", despite the fact that the reality of life in Cambodia for most workers, they are self-employed or involved in family-based or informal economic activities. The Royal Government of Cambodia (2017) states that Cambodia's National Social Protection Framework (NSPPF) 2016-2025 recognizes the extent of informality in the labour market, and therefore defined the expansion of social security coverage as a key goal. The framework sets out an important goal to gradually extend social security coverage to, eventually, all workers, including those engaged in informal employment. Additionally, the National Social Security Fund (NSSF) was established under Sub-Decree 16 (2007) with a primary focus on formal 58 sector employees, offering employment injury insurance and health insurance. Since that time, there have been efforts to expand social protection initiatives to workers who have traditionally been excluded from its scope, including the Health Equity Fund for poor households, the IDPoor identification system, and emergency cash transfer programs. There also has been the introduction of the pension scheme in 2007 and now voluntary registration for self-employed workers (NSSF, 2018). However, while these reforms have been intended to include informal workers, the reforms do fall short because their complexity makes them hard to access in practice. The World Bank (2019) noted that the

mandatory contributions of 4% of declared income with minimum thresholds are unaffordable for many workers with irregular and low earnings. Apart from its affordability, the registration of informal workers includes formal documentation preceding some formal registrations (business registration; tax identification), which many informal workers do not obtain. As the National Institute of Statistics (2018) shows, by 2017, only 12.4% of possible informal workers had registered for the voluntary NSSF schemes. The IDPoor identification system, similarly, seems to be less effective. The Royal Government of Cambodia (2017) claims that 30% of informal workers on eligible schemes had not been identified (182). The Royal Government of Cambodia (2017) also stated that the complex registration process, worker mobility, and urban-focused assessment criteria (which primarily addressed rural poverty) made it very difficult to identify informal workers. Specifically, Dave et al., (2018) supplied empirical evidence to demonstrate that while the Health Equity Fund is a legitimate effort to offer healthcare services, its only initial funding for eligible services was for households officially identified as "poor." The study stressed that the "missing middle," workers who are not formally employed, and do not fall into any poverty based classification live precariously, in fact, the missing middle do not receive any support whatsoever. Nuon and Serrano (2010) assert in their positions, that, "Cambodia's social protection expansion has prioritized poverty alleviation over risk to the workers including occupational risks, income fluctuation and rights in the workplace." Serrano and Xhafa (2016) assert, the national social protection policy framework prioritizes on changing worker behaviour rather than adapting existing systems to better align with the real-world challenges informal workers encounter.

2.7.2 Structural and Regulatory Barriers to Formalization

Even with good policies, the enforcement problems in Cambodia are serious and negatively affect the effectiveness of those policies. In their report (2020), the International Labour Organization claims that the labour inspectorate in Cambodia is resource-poor, with one inspector per 40,000 workers, or, really one inspector per 10,000 workers based on International Labour Organization recommendations. This creates extreme difficulties in enforcing labour laws. Journal notes that labour inspections are mostly in the capital city and provincial capitals, therefore informal workers in rural areas or smaller provincial areas are not inspected. Further, administrative fragmentation produces inefficiency and confusion for informal workers wanting to formalize work. Asian Development Bank (2018) points out that

there are responsibilities divided among many ministries: the Ministry of Economy and Finance, the Ministry of Labor and Vocational Training, the Ministry of Commerce and local authorities. Each agency has inconsistent information systems and procedures for registering and complying. Furthermore, UNDP (2019) case studies document that formalizing a business in Cambodia means contacting many different government agencies and filling in many different forms. ILO (2020) expands on these challenges as applying to small informal businesses with limited time and resources isn't only overwhelming and costly on its own, but also the registration and compliance systems don't reflect the realities of informal workers. For example, requirements for a business address exclude mobile vendors who move from place to place for their livelihoods. Similarly, accounting rules do not reflect the cash-based transaction realities intrinsic to the informal economy. Most fundamentally, the requirement to have stable income for tax and social contributions ignores the anecdotal evidence that informal workers do not have stable or consistent earnings when they engage in the informal system. The resulting complexity and looseness to informal realities creates barriers discouraging informal workers from applying to become formalized.

2.7.3 Trust in Institutions and its Role in Formalization Decisions

Cambodia's completion of the 6 million informal workers ultimately relies on credible institutions other than just rules or costs. Given that 88.3 percent of workers are in informal employment forms and 87.6 percent of establishments are informal (ILO, 2024), informality is quite widespread. Informal workers accept their employment positions from among street vendors, tuk-tuk drivers, and garment subcontractors with the intent to formalize if the social and financial benefits of formalization outweigh the perceived three risks: 1) these are the higher financial costs (taxes, contributions, accounting), 2) risks of unexpected enforcement (inspections, fines, bribes), and 3) losing autonomy. The Royal Government of Cambodia (RGC) (2023), claims that the equivalent level of risk is being managed by public agencies, meaning the decision to formalize is really to validate the integrity, capability, and fairness of the institutions, such as NSSF, GDT, and commune administration. Theoretical models define this social dynamic: first, institutional legitimacy theory asserts that if agencies demonstrate competence, procedural fairness, and value congruence, increases legitimacy and reductions in compliance costs succeed: second, social contract theory presents compliance with taxes and contributions as reciprocal. According to UNDP (2023) in their report on understanding exit

paths to formalization in Cambodia, if there is no state service, or if any service is perceived to be corrupt by an affected worker, there is no moral obligation to comply. The procedural justice theory suggests that voluntary compliance with rules has more to do with perceptions of process impartiality than it does with a potential penalty. However in Cambodia, the frameworks communicate that there are material incentives (e.g. anti-taxes, exemption periods, cash subsidies), but there is no behaviour that will be kick-started (if legitimacy did not re-established for institutions). Compliance theory suggests that, even if there are strong legal penalties, citizens will ignore them if the state is seen as a predator; however, if they view institutions as legitimate, even small interventions can have an impact. The RGC (2023) noted that in Cambodia's context of voluntary formalization, the link between trust and formalization is particularly relevant, where power over formalization often rests with the choices of workers, and that choice is an ultimate litmus test of institutional legitimacy. However, as UNDP (2023) indicated on an international scale, formalization challenges in Cambodia have disturbance seen in low-trust that occur along multiple dimensions of worker-state relations. Corruption perceptions are pervasive, and informality is at least partly perpetuated through formal systems which are perceived by workers as untrustworthy, or predatory. The survey and diagnostic studies discussed throughout the report observed that while many Cambodians profess and endorse democratic norms, there remains a high agreement to low trust in local government doing what is their "correct", but as the report highlights, these macro-level perspectives are translated into sector- and informal-level distrust with direct impact on their formalization decisions. For example, it was confirmed in both field interviews and diagnostic assessments that market vendors in both Phnom Penh and Kandal were paid "unofficial facilitation payments" in their inspections, which made vendors feel like their registration had altered their situation from being protected to exposing them to rent-seeking. The RGC (2023) highlighted that there is doubt among garment and construction workers about the NSSF when faced with major corruption allegations, while information asymmetries, as exemplified by the fact that 45% of non-contributors do not know the benefits of voluntary health insurance showed limited institutional reach in the country. Finally, low expectation of enforcement further erodes incentives, while only a fraction of micro and small enterprises think that they will face penalties for non-registration. This has caused a state of strategic informality with the amount of external audit that is allowed. Hence, it compares with evidence from Vietnam and Indonesia (ILO, 2024; UNDP, 2023), which show higher agency scores, undoubtedly suggesting a greater

voluntary uptake of formalization schemes for own-account workers, than in Cambodia. It is estimated that 100,000 self-employed workers, a mere 3.5% of the 2.9 million self-employed in Cambodia are registered and provided coverage (some form of social protection), and that only 13% of non-agricultural microenterprises are registered to pay tax. Nevertheless, while this is problematic, the revisions recently stated they also understood that increasing transparency and user-centred-design could recover lost trust, and increasing voluntary formalizations where it was not restrictive, could also provide opportunities to try policy. For example, in the pilot for tuk-tuk drivers in 2025, nearly 1,000 self-employed drivers registered for NSSF health insurance in an eight-week period, with willingness dependent on information available and the ease of acquiring.

CHAPTER 3: RESEARCH METHODOLOGY

The researcher conducted a survey and in-depth interviews with three types of informal workers (construction workers, tuk-tuk drivers and street vendors) in Phnom Penh to understand the perceptions, perceived benefits and constraints affecting their willingness to transition to formal employment in Cambodia. Further details of the study are in the subsequent section. The researcher analyzes the survey and interview results independently and also analyzes the intersections of the outcomes, comparing the demographic and socio-economic status of informal workers to their perceived benefits and constraints towards formalization.

3.1 Quantitative surveys with informal workers

3.1.1 Survey overview and participants

This part of the study was conducted via a blinded online survey facilitated by Google Survey between April 15 and May 25, 2025. The survey was conducted in Phnom Penh with a total of 87 informal workers (construction workers, tuk-tuk drivers, street vendors) respondents completing the survey.

The survey was conducted in the Cambodian language (Khmer). Specific eligibility criteria for respondents were: For construction workers, (1) Those labourers who engaged through informal labour brokers (2); Those who migrated to the capital city. For tuk-tuk drivers, (1) Those who operate independently, and do not work under any informal operator (2); Those who operate within a high-density urban area (3); Those who operate more than 7hours/day. For street vendors, (1) Those who have fixed location vendors (2); Those who operate in the

urban or metropolitan area. In addition, informal workers from the three sectors above must have had experience in their respective jobs for more than two years. These eligibility criteria were established to ensure that researchers collected credible, clear and well-informed responses. The survey took an average of 10 minutes to complete.

Criteria Justification

- **Construction Workers:** The engagement of informal brokers captures workers who lack employment security, formal contracts of employment and workplace protections. This is important information essential to understanding the social conditions of precarious work. Regarding migration status, the researcher considered the workers without local support networks, who may face language barriers, discrimination and exploitation. The researcher decided to consider only workers in capital cities to provide a maximum level of exposure to significant developments involving complex chains of contracting where violations are likely to be concentrated. The requirement that workers provide evidence of at least two years of construction work experience will help to ensure that respondents understand the implications of seasonal employment, delayed payments and safety risks. Respondents to the informal broker engagement represented the intersection of multiple vulnerabilities, including informal employment status, migration status and hazardous working conditions that firmly positioned the workers as appropriate subjects for considering the dynamics of an informal labour market and informing off the policy blind spots associated with informal work.
- **Tuk-tuk drivers:** Independent tuk-tuk drivers are the archetypal informal urban entrepreneurs facing market forces directly head-on. The independent criterion identifies drivers who have no organization, and no bargaining power that may offer some support, meaning they are more vulnerable to unregulated competition on fares and harassment. Their operation in high-density urban areas ensures exposure to traffic enforcement profiles, unregulated parking restrictions, and city-wide licensing. The minimum of seven hours identifies people whose income depends on this work, as opposed to someone who is supplementing their income, therefore capturing the group that is hit the hardest by fluctuations in fuel prices, and seasonal demand fluctuations. Having two years' experience determines an understanding of how regulatory enforcement operates and what kind of relationships can be developed with customers.

These drivers illustrate the employment challenges of services in the urban informal sector: regulatory uncertainty, fluctuations in net income, and the lack of social protection.

- **Street Vendors:** Fixed-site street vendors occupy a unique space in informal urban commerce, particularly in relation to territorial competition and enforcement. Vendors are considered to have established some customer relationships and obtained a stock of goods, but they lack property rights or formal business registration, according to the provided location criterion. The urban gaze is more than appropriate at this point because they will have been exposed to the regulations surrounding the acquisition of licenses, the collection of taxes and fees, working with authorities who have been displacing them, and the prospect of eviction, as seen with vendors in developed economies. Including fixed-site location vendors who have worked for at least two years assures that vendor samples would have some basis of understanding regarding seasonal demand changes of their goods, developing business relationships with suppliers, and patterns of enforcement that they may have experienced. Fixed-site vendors occupy the space right between business and vulnerability, earning a livelihood through entrepreneurship via informal commerce. The visual and permanent aspect of fixed-site location creates presence and acknowledgement and is subject to harassment and enforcement.

3.1.2 Survey Procedure and Statistical Analysis

To reach informal workers in the targeted occupations and sectors, the proposed study used the United Nations Development Programme (UNDP) in Cambodia's professional networks. Firstly, a formal request was sent to the UNDP Cambodia Socio-economist to access informal workers through the UNDP Cambodia stakeholders' network. This appeared to be a reasonable request because the Socio-economist is part of the Social Protection Program and as such would have established working relationships with many communities of informal workers in many sectors across Cambodia. The Socio-economist network included informal workers employed in many different sectors. However the proposed research was intentionally focused on three occupations, namely construction, street vending, and tuk-tuk driving. Secondly, the Socio-economist was chosen as the contact person for participant identification and recruitment from the stakeholder database of workers in specific sectors. Lastly, the targeted recruitment strategy

was purposefully designed to encourage research that focused on specific participants who fit the research interest, and the research strategy aligned with the three-piece objective, which emphasized the existing trust relationship with the UNDP Cambodia, and informal worker communities. The questionnaire was administered online using Google Forms, and participants received invitations to respond online. In addition, an online delivery mode was chosen to increase accessibility and affordability and to ensure that the data quality would not be compromised. Despite this, the data was made readily available online and the responses also became immediately available for collection and data aggregation. The questionnaire was distributed to 227 informal workers in the identified sectors. In the end, the dataset only contained 87 respondents. This significant non-response rate raises important issues of sample representativeness as the responding participants may not represent a random sample of the target population. The self-selection nature of survey involvement demonstrates that, in this study, those informal workers who chose to participate (by completing the questionnaire) might have systemic differences with those who did not participate (response bias) that could impact the findings of the study. The final sample included 27 construction workers, 31 street vendors, and 29 tuk-tuk drivers. As for the survey structure, respondents were first screened for eligibility. Eligible participants were asked to provide demographic information and then proceeded to answer questions about their awareness of employment formalization policies, their perceived benefits of employment formalization, their perceived barriers to employment formalization, their willingness to formalize and their most important factor in transitioning to formal employment. At the end of the survey, participants were asked if they would be willing to participate in a semi-structured interview, which would be followed by the online survey. Additionally, the researcher performed ANOVA to analyze statistical differences in responses by (1) Current occupation, (2) Gender, (3) Years of experience, (4) Monthly average income and (5) Family dependents. The participant demographic can be found in Table 1.

Table 1 | Participant Demographics for Informal Workers Survey Respondents

Demographic	Subgroup	Participants
Age	20-29	23
	30-39	43
	40 or above	21
Gender	Male	54
	Female	33
Education Level	No formal education	22
	Primary school	36
	Secondary school	23
	High school	9
	Vocational training	0
	University degree or higher	0
Current Occupation	Construction worker	27
	Street vendor	31
	Tuk-tuk driver	29
Years of experience	Less than 1 year	0
	1-3 years	25
	4-6 years	45
	Above 6 years	17
Monthly income	Less than \$100	0
	\$100-\$300	25

	\$300-\$500	48
	Above \$500	14
Family dependents	None	6
	1-2	71
	3-4	10
	Above 5	0

3.2 Informal workers in-depth interviews

3.2.1 Interview Procedure

The researcher screened through survey responses and selected six informal workers (2 from each sector) for a 30-minute semi-structured interview. To ensure that selected participants chosen provide well-informed and detailed answers, specific eligibility requirements were (1) Participants must have been in the informal system for more than 2 years, (2) Participants must have an average monthly income between \$201-\$400, (3) Participants must have family dependents and (4) participants must both consists of male and female. Due to technical constraints, the interview was scheduled and conducted online via Zoom, Google meet and WhatsApp video calls. Before the interview, the interviewer thoroughly explained the interview process emphasized the confidentiality of participants' responses, informing them that the interview was audio-recorded. After each interview, the voice recordings were saved as MP3 files and transcribed by Otter.ai. The researcher adopted a semi-structured interview format as interviews as it allows for a deeper exploration of individual perceptions and experiences regarding formal employment. This approach enhances credibility and fosters a deeper understanding of a subject matter, particularly around topics that explore complex socio-economic issues such as income, trust in government institutions and relevant policies. The focus of the interviews explored the participants' perceptions on (a) awareness of formalization policies, (b) awareness of formalization benefits, (c) motivation and barriers toward formalization across economic, social, cultural and psychological factors, and (d) willingness to formalize employment.

3.2.2 Data Analysis

A thematic analysis was employed to analyze the qualitative data collected from the interviews with informal workers. The researcher proceeded through several steps during the data analysis that included familiarization with the data, open coding and axial coding. First, the researcher reviewed all the interview transcripts to gain familiarity with the participants' experiences and overall perceptions of the formalization. Then, the researcher coded, broke down the data into different elements, and examining line by line to identify initial concepts (Strauss & Corbin, 1990). In the second phase, the researcher engaged in axial coding which emerged from open coding. However, open coding categories were organized into related clusters, and connections were established during this analysis phase. Lastly, the researcher reviewed the data to ensure reliability and trustworthiness.

CHAPTER 4: FINDINGS AND ANALYSIS

4.1 Informal Workers Quantitative Survey Results

Awareness of Formalization Landscape

To what extent do you aware of ...

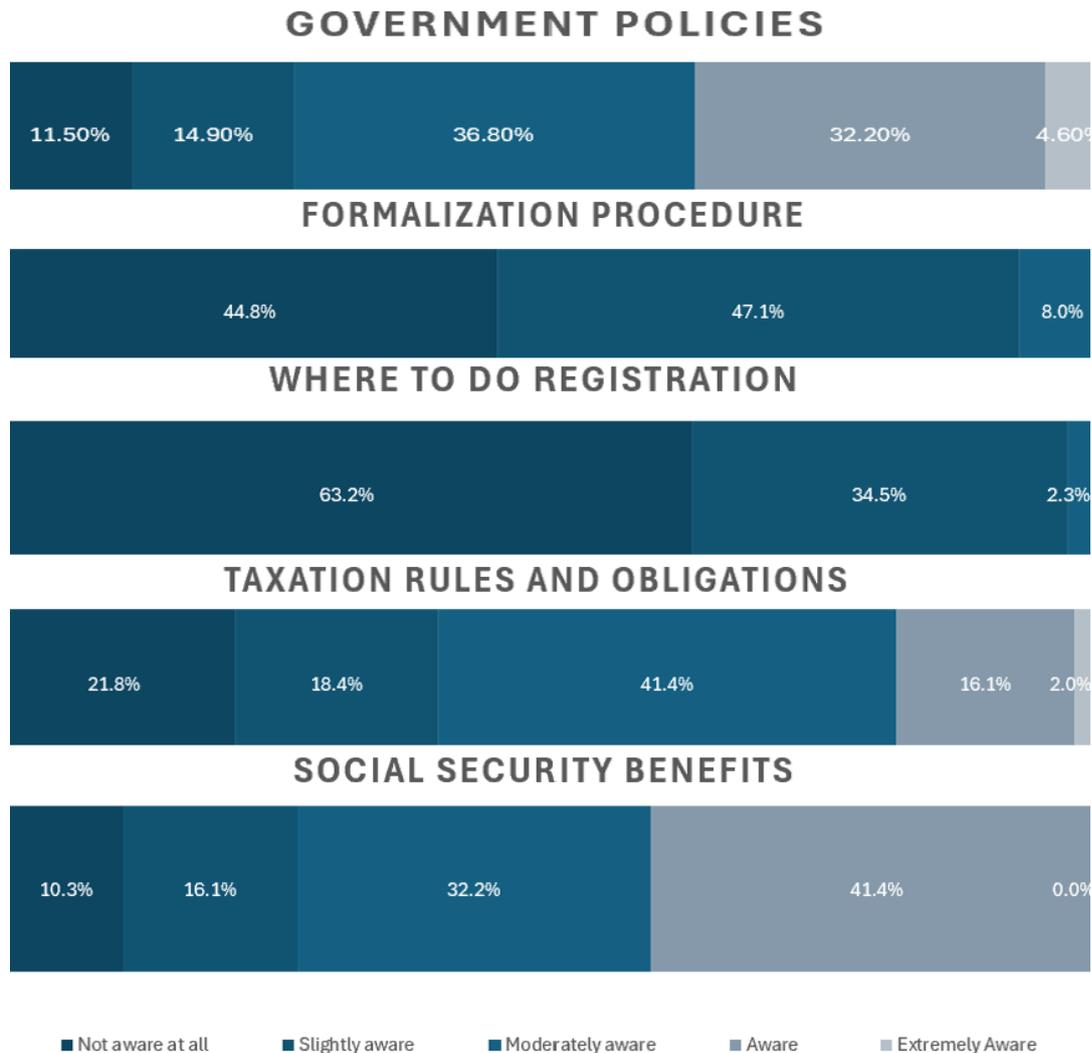


Figure 1 presents an awareness of the formalization landscape among 87 informal workers from three sectors in Cambodia, measured on a five-point Likert scale (1 = “not aware at all”, “extremely aware”) across five dimensions of the formalization process. The data highlight a significant “awareness gap” in the registration procedure – for instance, how and where to register their employment. In contrast, their familiarity with mandatory obligations and formalization benefits is remarkably higher.

Registration Awareness as Primary Barrier: Only 8% of respondents report a moderate or high level of awareness regarding the registration process, indicating 7 informal workers (8%) rated themselves at level 3. In contrast, none reported awareness at levels 4 and 5. In addition, 92% of respondents demonstrated a very low awareness, with 39 individuals (44.8%) at level 1 and 41 (47.2%) at level 2. Similarly, 97.7% of respondents indicated minimal awareness of where to register their employment, of which 55 individuals represented (63.2%) were at level 1 and 30 individuals (34.5%) were at level 2. More importantly, almost no respondents reported knowing where to register above level 2.

Awareness of Policy Framework: Awareness of government policies is situated at a reasonable level. The results of the questionnaire indicate that 36.8% of these respondents (n=32) had moderate awareness (level 3) and 32.2% (n=28) reported being completely aware (level 4). Still, 26.4% of the respondents fell into the lowest two awareness categories, which included 10 (11.5%) respondents in level 1 and 13 (14.9%) in level 2. These numbers suggest that, while a significant proportion of informal workers are aware of government policies regarding formalization, nearly one in four workers still lack familiarity with these frameworks.

High Awareness with Obligations and Benefits: Awareness of taxation rules and social security benefits is significantly higher than in other areas of awareness section. For taxation, 57.5% of respondents report moderate to full awareness, consisting of 36 workers (41.4%) at level 3 and 14 workers (16.1%) at level 4. In addition, about 21.8% (n=9) of respondents indicate they are unaware of mandatory obligations such as tax contributions. Furthermore, social security benefits highlight stronger awareness among informal workers, with 73.6% of respondents in the top two categories, 28 individuals (32.2%) at level 3 and 36 individuals (41.4%) at level 4. Despite this, only 9 individuals (10.3%) are totally unaware of the social security benefits.

Perceived Benefits of Employment Formalization

To what extent do you think this factor motivates you to formalize your employment?

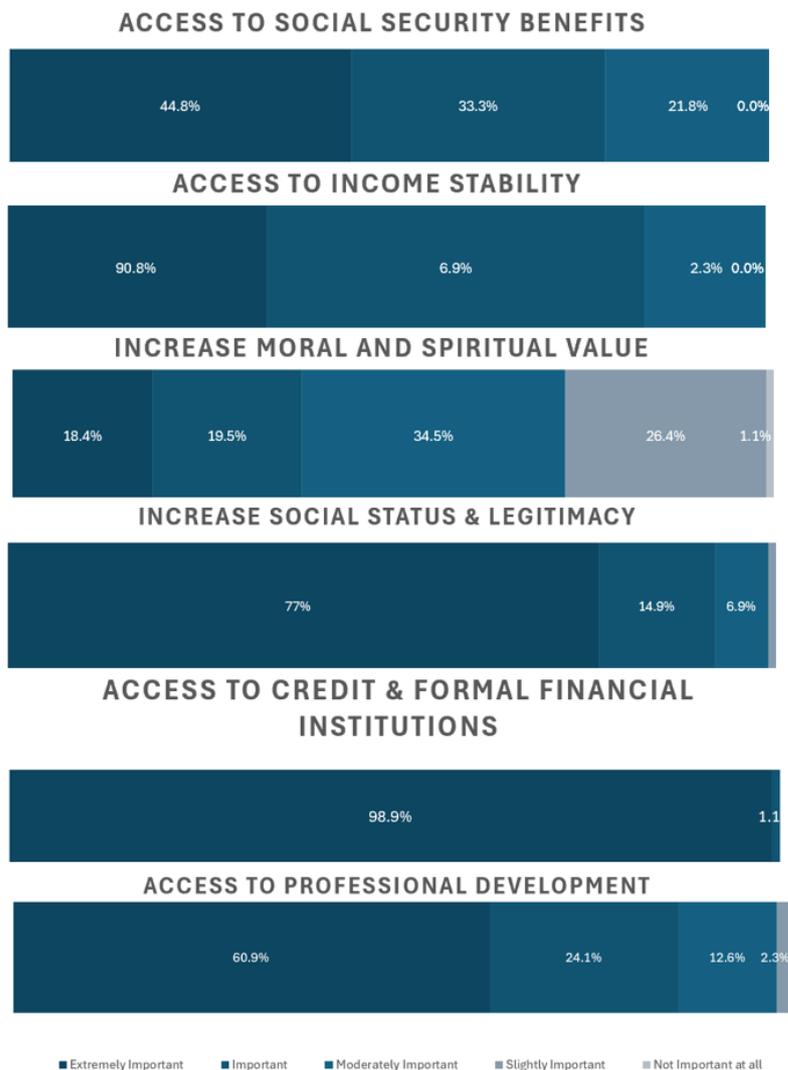


Figure 2 summarizes the perceived benefits of six motivational factors that encourage 87 informal sector workers to transition to formal employment in Cambodia, rated on a five-point Likert scale (1 = "Not important at all", 5 = "Extremely Important").

Informal Workers Prioritize Credit and Job Security: At the top of the priority ranking "access to credit and financial services", with a phenomenal 86 respondents (98.9%) indicating it as "extremely important". This strong consensus demonstrates the importance of access to capital is for business growth, managing day-to-day operations and easing the economic uncertainties faced by workers in the informal sector. Closely following is "income stability and job security", which 79 respondents (90.8%) rated as "extremely important".

Formalization Tied to Growth, Respect and Self-Worth: The second tier of highest motivational factor is, for 67 respondents (77%), “increasing social status and legitimacy” was rated as “extremely important”, while 13 workers (14.9%) considered it “important”. These responses illustrate that formalization does not reflect only on strategic economic decisions, but also a way for individuals who work in the informal economy to gain more respect, recognition and legitimacy within the community and professional network. Similarly, “increasing personal identity and professional development” was rated “extremely important” by 53 respondents (60.9%) and “important” by 21 individuals (24.1%). Thus, it explains the essential role that formalization can play in enhancing personal identity, increasing self-confidence and supporting a sense of growth and professionalism among informal laborers in Cambodia.

Informal Workers Prioritize Income over Social Security: “Having access to healthcare and social security benefits” holds a moderately important indicator in the hierarchy of formalizations. As the survey results demonstrate, 39 respondents (44.8%), rated it as “extremely important”, and 29 workers (33.3%) perceived it as “important”. While social protection is highly valued by many informal workers, its rank is below financial access and income stability in the Cambodian workforce. This means that, for many workers that work in the informal sector, social protection is perceived as a meaningful but secondary incentive for them. On the other hand, “increasing moral and spiritual values” appear to matter much less when it comes to employment formalization. Only 16 informal workers (18.4%) mentioned these values were “extremely important”, while 53 respondents (60.9%) viewed them as moderately important or less.

Perceived Constraints of Employment Formalization

To what extent do you think this factor discourages you to formalize your employment?

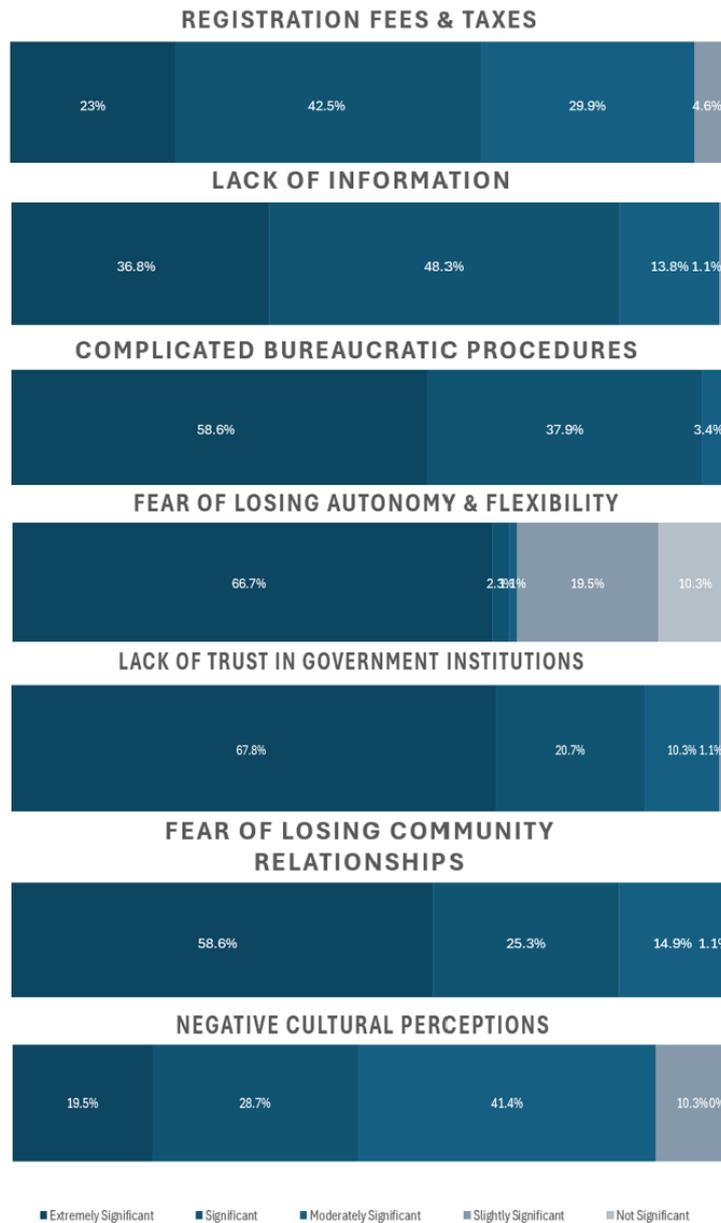


Figure 3 summarizes the perceived constraints of six barriers that discourage 87 informal sector workers from formal employment in Cambodia, rated on a five-point Likert scale (1 = "Not Significant", 5 = "Extremely Significant").

Procedural Complexity and Duration: Informal workers highly demonstrated that administrative burdens were the most critical barriers, with the "Complicated and Time-consuming Process" being rated as "Very significant" by 51 respondents (58.6%) and "Significant" by 33 respondents (37.9%). In total, 96.5% underscores that extensive

paperwork, multiple institution visits and mandatory requirements make informal workers resist formalization.

Institutional Trust Deficit: 59 respondents (67.8%) expressed “Lack of Trust in Government Institutions” as “Very significant”, while 18 workers (20.7%) marked it as “Significant”. This finding points to a systemic deficiency in institutional legitimacy that creates barriers for workers in the informal economy to engage with formal regulatory systems. Furthermore, “Fear of Losing Autonomy and Flexibility” was rated “Very significant” by 58 respondents (66.7%) and “Significant” by 17 (19.5%), for an overall 86.2% under this constraint.

Knowledge Gaps in Formalization: As the survey highlighted, “Lack of Information” about formalization procedures and requirements was rated “Very significant” by 32 respondents (36.8%) and “Significant” by 42 (48.3%), illustrating the importance of clear guidance materials from the government; however, this barrier is still perceived as less important compared to procedural complexity of formalization.

Economic Concerns: Regarding financial barriers, specifically relevant to “Registration fees and Taxes” appeared to be less prohibitive among informal workers. Although 23% of respondents rated “Registration fees” as “Very significant” and 42.5% as “Significant”, nearly 30% (n=26) perceive them as “Moderately significant”. Thus, although registration costs might be an economic barrier, the procedural and institutional factors are more crucial for individuals working in the informal sector.

Social and Cultural Dimensions: According to the survey results, 73 informal workers (83.9%) consider “Personal Status and Community Connection” a significant and very significant factor that discourages them to formalize their employment, while 51 respondents (58.6%) rated “Very significant” and 22 individuals (25.3%) perceived it as “Significant”. Nevertheless, the constraint “Negative Attitudes and Cultural Perceptions” ranks the lowest among the seven constraints, demonstrating only a total of 48.2% among 42 informal workers who view it as very significant. Therefore, the data highlight that cultural perceptions toward formality in the Cambodian workforce might not be as important as other constraints such as social connections and institutional trust.

Cross-sector Analysis

Which factor among economic, social, cultural and psychological do you think is the most important to you regarding formal employment transition?

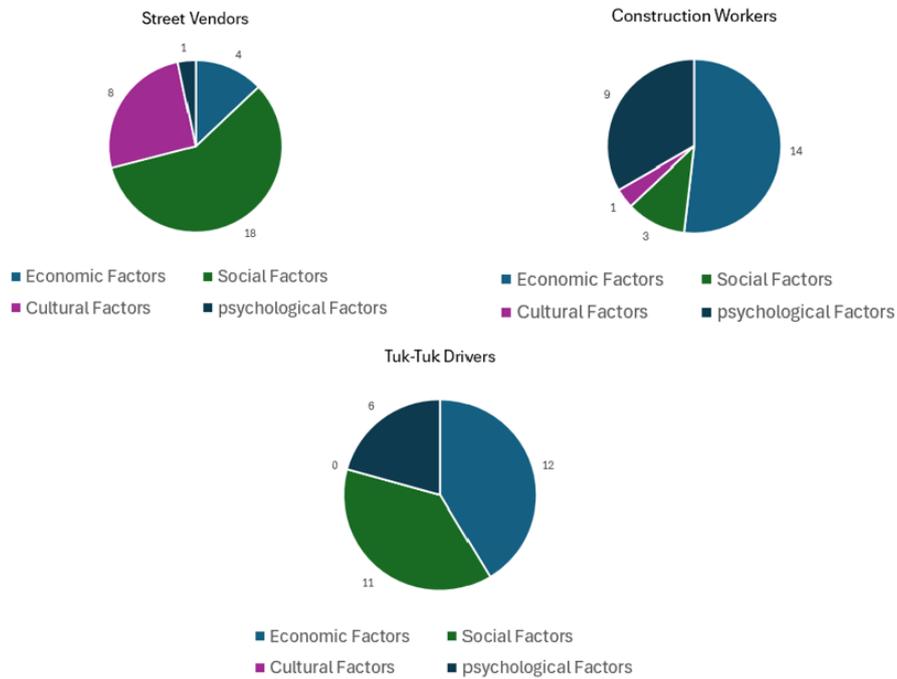


Figure 4 illustrates the number of respondents in each occupational group who identified economic, social, cultural or psychological factors as the single most important consideration for moving from informal to formal employment.

The cross-sector analysis draws on N = 87 responses from three informal sectors, including tuk-tuk drivers (n=29), street vendors (n=31) and construction workers (n=27) to identify the most important factor of employment formalization. Respondents were asked to choose one dimension they perceived as the most influential in their decision among economic, social, cultural or psychological. Figure 4 summarizes the counts of 4 dimensions across three informal sectors.

According to the survey results, social aspects accounted for the largest proportion of primary motivations, mentioned in 36.8% of cases (32 out of 87 responses). These were closely followed by economic dimensions (34.5%), psychological drivers (18.4%), and cultural dimensions (10.3%). It underscores that interpersonal relationships and community

connections essentially determine the choices of individuals working in the informal system of the Cambodian workforce. Social factors highlighted throughout the survey like social status, recognition, personal identity and community networks outweighed financial or individual psychological considerations.

A disaggregated analysis by sector reveals significant variations in the motivations that influence informal workers toward formalization. Among construction workers, economic security emerges as a primary consideration. Half of the respondents in this sector (14 out of 28) emphasize financial advantages such as stable income, access to formal contracts and health coverage as central to decision-making. In addition, 9 respondents demonstrated the importance of psychological motivations to transit from informal to formal employment. For individuals who work in the informal system, psychological motivations often describe the pursuit of income stability, job security, clear responsibility and fixed-schedules in their work. Thus, psychological and economic motivations complement one another. On the contrary, only 3 out of 28 respondents (10.7%) cite social factors. This pattern suggests that for construction workers, whose labour is highly physical and insecure, formalization is perceived as an opportunity to gain economic security. because they are employed in precarious labouring conditions.

By contrast, street vendors present an almost opposite pattern to construction workers. For this sector, social drivers are the most commonly cited reason for formalization, with 18 out of 25 street vendors (72%) showing the importance of social recognition, peer networks, status, personal dignity and family influence. However, economic factors are mentioned by just 4 participants (16%) indicating that formalization in this sector is embedded in social networks and collective guidance rather than economic benefits.

On the other hand, tuk-tuk drivers present a more distributed motivational landscape compared to the other two informal sectors above. According to the survey results, of the 34 workers, 12 (35.3%) emphasize economic reasons, while 11 respondents (32.4%) identify social factors as a reason for formalization. Similarly, among 6 tuk-tuk drivers, i.e. 17.6%, psychological motivations are cited as a reason for making the decision to formalize their employment. This distribution can be attributed to the fact that it reflects a multi-criteria ranking technique where economic incentives like social security benefits and access to formal financial institutions

conjoin with social drivers like social recognition, status, and career development to influence their decision towards formalization as tuk-tuk drivers.

Across all three sectors, cultural motivations are rarely mentioned from the perspective of informal workers in Cambodia. This suggests that while culture may influence workers' attitudes, it plays a very minimal role in formalization decisions. As survey results suggested, informal workers' choices are shaped by economic security, social networks, recognition and personal legitimacy within their occupation.

4.2 Informal Workers Qualitative Interview Results

Thematic Analysis

Theme: Perceived Economic Motivations and Constraints

Access to Social Security Benefits: Informal workers demonstrated how significant social security can be to them and their families, especially during unexpected events such as illness, injury and income shortages. *“I have been working construction jobs in Phnom Penh for 5 years. I get paid by cash on a daily basis, no contract and no benefits. Last August, I got injured and couldn't work for 2 months. Without any income, my wife had to borrow money from our relatives to pay for the medical bills and daily expenses. However, that's when I thought if I were formally employed, I would be part of the social security system that allows me to receive medical treatment without any costs. I think it is very important to have these advantages as a construction worker”*. P02 [30-39, Male, Construction Worker]. The participant further expressed a strong emphasis on how their families could also benefit from government programs like the National Social Security Fund (NSSF); for instance, apart from them - their children can also have access to free medical treatment. *“My children are often caught with sickness from time to time, sometimes they got flu and it's quite expensive for me even with just simple medications. If I was registered with the NSSF, at least I would not have to worry about this issue”*. On top of health coverage, informal workers also perceived the critical role of pension schemes, considering health conditions, old ages and the needs to support the family. *“I have been a tuk-tuk driver for more than 15 years, now I am getting old and suffering from diabetes. My family still needs me and if one day I quit, we will not have any income. If I had access to a pension program, maybe I would not have to push myself too much. If I were to pay*

a little contribution monthly and can get financial support later when I cannot drive anymore, I think it is worth it". P03 [30-39, Male, Tuk-Tuk driver].

Access to Formal Financial Institutions: Informal workers demonstrated the need to deal with emergency events, expand their businesses and navigate financial security by acquiring loans from formal financial institutions. *"There was a time that my grandmother passed away, and I did not have enough money to organize a funeral for her. My friends lent me some money but still it was not enough for the event. I am just doing a small retail business and do not have legit documentation to prove to the bank; therefore, I couldn't obtain any loans for the emergency need at all. If I had my business registered, I could have taken a personal loan. P01 [30-39, Female, Street Vendor].* In addition to access to loans, formal financial institutions offer a variety of services to help individuals manage their finances, including checking and saving accounts. This allows workers to save up money without any concerns; in addition, benefits from local financial institutions' interest rates. As described by P05 [30-39, Male, Tuk-Tuk driver], *"I don't have a bank account, and keeping money at home is risky. If I could open a savings account, I would like to save up for my children's education. Although I wish the interest rates were higher, at least it's safer than keeping the money myself".*

Access to Business Opportunities: Informal jobs often operate without fixed schedules, formal contracts, clear roles and consistent income. Additionally, individuals who work in the tourist-based economy often struggle to compete with those with formal contracts. To address concerns about being licensed and employed by a formal company, participants believe that formalization could lead to more business opportunities. *"I am invisible to big opportunities because I work independently and informally, with no registration to any hotel or transportation companies. Tourists that visit Phnom Penh mostly book through apps or hotel services. I believe I would have earned more money if I had formal contracts with a company". P02 [30-9, Male, Construction Worker].*

High Taxes and Registration Fees: Many informal workers in Cambodia encounter barriers to formalization due to the perceived costs associated with business registration, including upfront license fees, taxes and complex administrative procedures. Moreover, there are even informal fees collected by the local authorities to some extent. For individuals who operating on small profit margins, these expenses are often considered as unaffordable. As P01 [30-39, Female, Street Vendor] described, *"I was told I have to pay fees and monthly taxes if I were to*

register my business. I earn just enough to survive from one day to another, how can I afford to pay all of these costs?”. Some informal workers expressed the lack of information about fees and its clear benefits present more risks than opportunities. “I have no idea what benefits I could gain from formalization my job. Perhaps I can get free medical treatment or some financial supports, but I am not fully convinced that I will get it. I may pay for nothing. I think the system is designed for bigger businesses, not a small Tuk-Tuk driver like me”. P05 [30-39, Male, Tuk-Tuk Driver]. The collection of informal fees by local authorities are very common, especially when it operates in a public space or street. Thus, it creates more resistance among some informal workers in Cambodia. According to P04 [20-29, Female, Street Vendor], “I have to pay some money to local officials every week to keep my spot or they would force me to move away. I feel like I will pay twice even if I am registered”.

Theme: Perceived Social Motivations and Constraints

Increase Social Recognition, Legitimacy and Status: In Cambodia, where social status is measured by employment type, informal workers may perceived as less trustworthy. This perception affects how individuals are treated within their communities and families. Informal workers pinpointed that formal employment with formal contracts would bring them legitimacy in the eyes of others; additionally, it provides a stronger sense of pride in their profession. As described by P06 [30-39, Male, Construction Worker], *“Working without any form of official contract and being just a day labourer, I feel like people don’t take me seriously. I also do not have a sense of belonging at all. However, if I had a formal job with a company, I think people would see me differently. I believe it isn’t just about money, but also about how people recognize my work”*. Speaking of gender roles, economic contributions by women workers in Cambodia are often seen as “side work” rather than being seen as serious breadwinners. Many female street vendors emphasized that formalizing their work would allow them to gain respect, challenge traditional gender roles and improve their status within families and communities. *“As a street vendor, my neighbours think I’m just doing this to support my husband and it’s not a real job. My relatives even said I should stay home to look after the children instead. If I had a license, I believe people would see me more as a real business owner”*. P04 [20-29, Female, Street Vendor].

Access to Professional Networks and Career Advancement: Informal workers often struggle to build professional connections and advance their careers because this opportunity

is more accessible for individuals who work in the formal system. When a worker is not formally employed, it's almost impossible to join professional groups or unions that offer skills training and job referrals. As P02 [30-39, Male, Construction Worker] addressed, *“Many big construction projects in important cities like Phnom Penh, Sihanouk Ville and Siem Reap are managed by companies that want to hire workers with formal contracts. I was not aware of those opportunities at all, as I’m just an informal construction worker. If I had formal employment, I could be part of networks that can lead me to better jobs and skills development”*. P03 [30-39, Male, Tuk-Tuk Driver] further demonstrated that, *“If I can join an official network, I could build friendships with other drivers, and more importantly find better career opportunities and information from them. For instance, seeking information on how to work for delivery companies that mostly employ a registered driver or referring me to ride-hailing platforms”*.

Peer Pressure and Family Influence: For Cambodian informal workers, community connections and relationships play a crucial role in long-term survival. Tuk-Tuk drivers; for instance, work within close-knit groups where informal work is not only a source of income for them, but also a key element of social identity and belonging. In this regard, formalizing means cutting ties with the community. As P02 [30-39, Male, Construction Worker] elaborated, *“If I formalize my job, my friends would think I’m trying to separate myself from the group. Moreover, I really don’t want to lose that connection. At the end of the day, I think it’s not only about money but also about belonging and support”*. On top of that, some drivers put a stronger emphasis on the flexibility of informal work that allows them to balance earning money with family responsibilities which are often absent in formal employment. *“I don’t want to lose flexibility over fixed schedules. I can help my wife to pick up my daughter from school when she’s busy. Sometimes, I hang out with my comrades when we don’t have any customers. During the fishing season, I helped him with the delivery. Nevertheless, I believe I cannot do this if I were formally registered with a company”*. P05 [30-39, Male, Tuk-Tuk Driver].

Theme: Perceived Cultural Motivations and Constraints

Femininity and the New Role of Women in Modern Society: In Cambodia, women are culturally expected to be caretakers and economically dependent on their partners. Nowadays, many female workers engage in informal work to ease financial dependence. Despite their efforts, women working informally often encounter cultural stigma that devalues their

contributions and limits their social recognition. In society, women who participate in informal work such as street vending are often perceived as lacking ambition, stability and capability. These cultural views encourage female informal workers to formalize their jobs in order to challenge the cultural perception. P04 [20-29, Female, Street Vendor] emphasized on how formalization could change the way her job is perceived, *“People look down on me and they don’t take my job seriously. I want to be seen as a businesswoman, not just a street vendor. If I had a legal stall or shop, I think people would respect me more”*. In addition to financial independence, informal workers highlighted the importance of female contributions in marriage and family. As described by P01 [30-39, Female, Street Vendor], *“I don’t want to rely on my husband’s money alone to support our children’s education, I also want to help him reduce his burden”*.

Masculinity and the Provider Role: In a society where men are expected to play an active economic role, they often carry the cultural expectation of being the primary provider or breadwinner for their families. Many informal workers in Cambodia, especially men, feel pressured to ensure long-term financial stability and security. According to P03 [30-39, Male, Tuk-Tuk Driver] demonstrated that, *“I am a bit concerned about the future of my two sons. I want to give them a better life. I don’t have any back-up plan and if one day I got sick and can’t work anymore, I’m afraid they have to quit school. If I am registered with a formal company, I think I can save-up more money and access some benefits. I don’t want to disappoint my wife and children as the head of the family”*.

Distrust in Government Institutions: Informal workers in Cambodia have grown up in environments where distrust in government institutions is passed down through generations. For many individuals engaged in the informal workforce, scepticism toward formalization is influenced by the lived experiences of older generations who, despite involvement in government systems experienced no benefits. Consequently, informal workers prefer to be informal to avoid disappointment and exploitation. *“My dad worked as a construction worker for 12 years and never received any benefits from formalizing his job. I was told that having access to social protection programs is only for people that already have money and power. I think a formal job looks good on paper, but it doesn’t look like that in real-life situations”*. P06 [30-39, Male, Construction Worker]. In addition, informal workers pinpointed interactions with government offices are associated with corruption, unfair treatment and complex

bureaucracy. As described by P05 [30-39, Male, Tuk-Tuk Driver], *“I tried to register my employment the other day, and the officials kept asking for documents I didn’t have. I was told to pay extra if I want to speed-up the process. Sometimes I wonder if they treat everyone the same way I was, or if they made things harder for an informal worker like me”*.

Perceived Psychological Motivations and Constraints

Less Stress and Better Focus: In Cambodia, people that employed informally in the construction job face uncertainty with no clearly defined roles, shifting tasks and unpredictable hours at their workplace. This lack of formal structure creates more stress for workers, thus decreasing their efficiency. P02 [30-39, Male, Construction Worker] highlighted the work inconsistency he has at the construction site, *“Every day is different, and I never know what I’ll be doing. The boss decides everything, and delegates according to his work plan. It’s a bit stressful for me. If I had a fixed schedule and responsibilities, I could focus more on my tasks without feeling so lost or exhausted”*. Workers demonstrated the importance of career advancement and recognition through clearly defined roles at work. As described by P06 [30-39, Male, Construction Worker], *“If I have clear roles, I could focus on getting better at it and maybe a chance to move up and earn more money”*.

No Flexibility and Work-Life Balance: Informal jobs allow individuals, particularly women to manage caregiving responsibilities while also working for a living. In Cambodia, women are traditionally expected to take care of household chores, children and elderly family members. P01 [30-39, Female, Street Vendor] emphasized that formal employment offers no flexibility and limits her ability to manage household responsibilities. *“I have to look after my 3-year- old child and cook for my husband and parents at home. If I had a formal job, I think I wouldn’t be able to handle all of these things”*. In addition to caregiving responsibilities, female street vendors pinpointed the privilege of having more freedom to manage their work schedules and spend quality time with family members as informal workers. According to P04 [20-29, Female, Street Vendor], *“As a street vendor, although it’s informal, I can close or open my stall at any hour I would like to. I don’t have any pressure of working a fixed hours compared to some people in the formal system. Sometimes, I close my shop for a few days and visit the hometown with my husband and children”*.

CHAPTER 5: DISCUSSION AND CONCLUSION

The Primary of Social and Economic Factors in Formalization Decisions

The data indicates that the informal workers in Cambodia did not consider employment formalisation as just an economic question. Rather, personal and social expectations ultimately dictate employment status. As previously noted in figure 4, the quantitative findings indicated that a large number, 32 out of 87 responses, focused on social goals, such as recognition, dignity, and belonging; the next largest group, 30 out of 87 respondents, pointed to economic aspects, including income security, access to formal financial institutions, and business opportunities. In this way, this resulted in a challenge to the conventional wisdom that informal workers decide for formalization primarily for economic benefits. The high presence of social motivations among informal workers suggests that decisions to formalize employment are not solely about maximizing financial benefits. However, such arguments do not explain why, in Cambodia, informal workers view formal employment as a ladder for recognition and legitimacy as well as an opportunity to earn a formal status. Further qualitative data support the use of this approach as participants often remarked that formal employment would also enhance their social identity and put them on par with their families and communities. One construction worker noted that formal employment would provide “people may see me differently” and a “sense of belonging”. This aligns with Lund’s multidimensional framework which emphasizes that the decisions to formalize work are based on social ties and cultural expectations, rather than solely on economic benefits. Also, as this study’s aim was to explore three informal employment sectors in Cambodia, the sector differences in motivational priorities further indicate how formalization decisions are distinct by individuals’ unique challenges in their informal work sphere. As shown in figure 4, many construction workers emphasized economic security and psychological motivations, which aligns with the nature of construction as being intensive physical labour with insecurity. Formal employment offers access to social protections and fixed schedules. Street vendors largely highlighted social motivators with their aspirations for formalization seeking community recognition and legitimacy in a business context. Lastly, and in the middle ground of the social-economic spectrum, Tuk-Tuk drivers appear to have a close distribution across social motivators and economic considerations. This pattern reflects their participation in Cambodia’s tourism

economy where drivers negotiate financial pressures with professional advancement and career connections within their social networks.

The Paradox of Institutional Distrust and Gender Dynamics

The research has identified an overwhelming trust deficit among informal workers in Cambodia. According to figure 3, 67.8% of respondents identified "lack of trust in government institutions" as a major limitation to the formalization process. This data ties back to Cambodia's bureaucratic incompetence and demonstrates the extent to which scepticism about formal governance continues to be inherited across generations. Qualitative data indicates that people recount the bureaucratic corrupt experiences of their families, exploitative conditions, and their family's failure to achieve the promise of formalization. An example includes a construction worker who said that his father "worked as a construction worker for 12 years and never got any benefits from formalizing his work", and demonstrates that all of these past experiences are critical in shaping current perceptions of formalization. This finding contests institutional theory's assumptions regarding the influence of formal rules over human behaviour. While it has been documented that it climates of erosion of public institutions, informal governance also supports the prevalence of informal norms and networks.

Another consideration is that this study finds clear inequalities in motivation and in constraints to formalizing employment, between genders. The etic perspective, in the form of cultural dictates, to the second feminine dialogue, shows a very basic level of understanding regarding the choice to remain in the informal economy. Qualitative results reveal that women are faced with additional barriers due to traditional gender expectations, i.e., the expectation of being caregivers and earners for their families. Conversely, men's roles have equal cultural expectations as the primary providers for their homes. While male informal workers have a greater inclination to seek formal employment, hoping that formal employment will lead to a stable financial perspective, female workers tend to prefer informal roles, as they have the flexibility to contribute to the family income while managing their household responsibilities.

Unexpected Findings

The economic factors, ranked second after social motivations as reasons for employment formalization are perhaps the most surprising aspect of the research, given the poverty and economic insecurity that all informal workers in Cambodia experience. This finding is counter

to the dominant narrative in development economics (Bacchetta et al 2009), which suggests that economic incentives are the primary motivators for people, particularly in LDCs. There are several of possible explanations to resolve this contradiction. First, social status plays a crucial role in identity within Cambodian society. Individuals with formal employment have more esteem in their families and communities because they have a stable job and can plan for the future. For some sectors, such as Tuk-Tuk transportation and construction, both male-dominated industries, workers have a stronger drive for career development that leverages professional social networks like industry experts and formal associations. Whereas in female-dominated industries such as street-vending and garment production, entrepreneurs used local employment as a path for gaining autonomy in a traditionally patriarchal family social structure. Put differently, women with formal jobs hold enough power to make family decisions. Additionally, the study reported that cultural factors ranked lowest among the other moderation factors. This is in contrast to the anthropological literature that highlights the importance of traditional values and practices in the employment spectrum (Moy et al., 2022). The qualitative data indicated that cultural factors may be a form of influence on the formalization decisions made by informal workers in Cambodia, yet not to the extent of other dimensions

Theoretical Contributions

This case study makes several significant theoretical contributions to the understanding of employment formalization within a developing country like Cambodia. The quantitative and qualitative data demonstrate how Lund's multidimensional framework reflects the complex relations of economic, social, cultural and psychological drivers, which shape informal workers' decisions to formalize. Furthermore, the absence of a single predominant factor in operation across the three sectors indicates that an integrated approach should consider multidisciplinary approaches. Additionally, this research illustrates the advanced application of behavioural economics, showing how cognitive biases and contextual factors influence formalization decisions. Seeing procedural complexity outweighing the financial costs from the perspective of informal workers in Cambodia provides empirical support for behavioural theories in policy design. For instance, pursuing the reduction of registration fees in addition to simplifying the administrative procedures formalization would provide useful consideration for informal workers who may have limited knowledge. The research also contributes to our

understanding of institutional theory by emphasizing the role of trust and legitimacy in enabling maximum institutional responsiveness. The outcome of historical experiences continues to influence people's current identity with formalization suggesting that institutional change is more than the rewriting of rules, institutional change involves the ongoing development of legitimacy and trust over a period of time. This understanding is crucial for the pursuit of studies in institutional development within post-conflict countries like Cambodia, where past experiences of governance continue to shape how Cambodian people perceive their own experiences with institutions now.

Policy Implications

The findings of this study provide valuable guidance for the design of formalization policies in Cambodia. As many informal workers mentioned procedural complexity and distrust of government institutions as important barriers to their formalization, the research suggests that policy interventions should focus on streamlining bureaucratic processes and enhancing institutional accessibility for informal workers. According to ILO (2024), policy makers may consider developing one-stop service centres, digital platforms for registration or mobile outreach programs that bring services to informal workers, rather than requiring them to deal with complicated administrative systems. Although formalization decisions are significantly influenced by social factors, UNDP (2023) suggests that policy interventions should emphasize the social recognition and legitimacy benefits of formal employment for workers in the informal sector. This could include public awareness campaigns that highlight the success stories of formalized workers and recognition programs that publicly acknowledge the important participation of the formal sector in the economy and society. Moreover, while distrust of government institutions creates astounding barriers to formalization, it effectively highlights the need for rebuilding institutional legitimacy through transparent, accountable, efficient, and effective government structures. For this reason, formalization policies should incorporate broader institutional reforms that support of mitigation of corruption, enhance public service reliability, and promote the welfare of informal workers. Most importantly, different formalization incentives across sectors establish targeted policy measures which must address the peculiar challenges specific to respective informal worker groups. For instance, policies targeting construction workers should emphasize on the benefits of social protection

programs and job stability, while those aimed at street vendors might facilitate more on business development, flexible work arrangements and childcare support.

Conclusion

The primary subject of this study is a significant issue - the persistence of informal employment in Cambodia's labour market where a large number of informal workers, are engaged in work without formal protections. There is a perspective that an effective transition from informal to formal, is still minimal compared to the initial push towards formalization of employment by the government. Such gaps represent a disconnect or divergence between the policy frameworks of Cambodia, and the lived experiences of informal workers, in day-to-day life, across the country. This paper explore the realities of employment with respect to formalization, in particular the lived experiences of informal workers who engage in work in the three key informal sectors: construction work, street vending, and tuk-tuk work. One of the primary goals is to understand the chief motivations and barriers to the decision to formalize employment, and to outline how barriers differ across the formal sectors.

The results generate some unanticipated reflections on how informal workers view formalising employment and suggest that there is more at stake in their motivations than economic rationality. Overall, social motivations were the most significant motivators and the biggest motivator in all three sectors. Out of the respondents, 36.8% indicated social motivations as their information. The meaning of this result presents formalization in Cambodia as a social process, embedded in the community and social norms, rather than a straightforward economic decision. Relatively, 86 and/or respondents (98.9%) considered access to credit and financial institutions as "extremely important" suggesting that their informal employment and the scope of their formalisation is also an access strategy for inclusion in financial systems in society and not only for regulatory purposes. In addition, the sector analysis indicates that these drivers are also institutionally specific, which is associated with the nature of the different jobs available in the workforce. For construction workers, entitlements like health coverage and financial security are priorities of the job because of the uncertainty of the job and the labour intensity of the work. Social position and legitimacy are equally important for street vendors as social position may enable them to overcome cultural stigma and claim personal dignity within their families and communities. Tuk-tuk drivers illustrated a more balanced spectrum of thinkers representing the dual agenda of negotiating economic demands and developing social

professional networks. Additionally, the research documented substantial institutional constraints that continue to undermine informal workers' efforts to secure formal employment. In the results, administrative complexity was broadly illustrated as a challenge to formalizing employment by many informal workers in Cambodia, and while not as critical a factor, cultural constraints informed their decision-making process around formalization with respect to gender and family obligations.

This research improves our understanding of employment formalization, with a goal of expanding our comprehension of not only formal-informal boundaries and types. This study affirms social motivations for formalization and can further foster sociological representation in terms of those factors that define how employment relates to community relations and cultural values. The distinctions made in the study in terms of sector, facilitate contributions to occupational sociology by explaining how the particulars of each type of work affect workers' choices about formalization. As a result, it is essential that policy makers formulate policies that allow individuals and sectors to focus on their actual priorities and constraints. There are several limitations that are important to consider in relation to these findings. The quantitative work involved a sample of 87 respondents, and the qualitative study involved a sample of 6. This suggests that the scope of transparency will be limited; however, it does represent a substantive contribution to the understanding of how to influence employment transparency in Cambodia. In addition, the nature of the study regarding urban areas (Phnom Penh) means that this study does not include rural informal workers who may have different motivations and constraints for formalizing their employment. And while this study provides important insights into three informal sectors in Cambodia, it does not cover the case of the full range of informal jobs in the country. There are important sectors such as manufacturing, agriculture and other service industries that will have different motivations and barriers.

With these findings and limitations, there are also multiple directions for future research as priorities to further develop understandings of employment formalization in Cambodia. Firstly, future research should take a longitudinal approach that examines informal workers' preferences while they develop over extended periods of time. This would expand understanding of how events, policies and changes in the economy will impact informal workers and their formalization decisions over time. Secondly, the emphasis on broader comparisons is typically on research on rural-urban spaces. Rural spaces may involve very



different institutional settings, social dynamics and economics that shape formalization preferences in different ways. Thus, to develop a deeper understanding of location-specific variables which influence formalisation, comparisons of rural and urban contexts might be in order. In conclusion, future studies will need to investigate implementation gaps between formalization policy and typically informal work experiences, because even if informal workers prefer formality and policies are well-meaning, an implementation gap still remains. Ethnographies of how workers navigate the bureaucracy of a formal context, and how those frameworks implement and translate these policies into work and institutions, could also provide important insights as to why some policies did not work, regardless of implementation capacity or responsiveness.

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APPENDIX

A.1 Study materials

A.1.1 Survey questions

I. Demographic and Economic Information

(Please circle or tick the appropriate option)

1. Age:

- Under 20
- 20–29
- 30–39
- 40–49
- 50–59
- 60 and above

2. Gender:

- Male
- Female
- Other/Prefer not to say

3. Education Level (Highest completed):

- No formal education
- Primary school
- Secondary school
- High school
- Vocational training
- University degree or higher

4. Current Occupation:

- Street vendor
- Tuk-tuk driver
- Domestic worker
- Construction worker
- Agricultural worker
- Other (please specify): _____

5. Years of experience in informal employment:

- Less than 1 year
- 1–3 years
- 4–6 years
- 7–10 years
- More than 10 years

6. Monthly average income (in USD equivalent):

- Less than \$100
- \$100–\$200



- \$201-\$400
- \$401-\$600
- Above \$600

7. Family dependents (number of people financially supported):

- None
- 1-2
- 3-4
- 5 or more

II. Awareness of Employment Formalization Policies

(Indicate your awareness by circling your response to each item. 1 = Not at all aware, 5 = Extremely aware)

Statements	1 2 3 4 5
1. I am aware of the Cambodian government's policies encouraging informal workers to formalize.	1 2 3 4 5
2. I understand clearly the procedures required to formalize my business/employment.	1 2 3 4 5
3. I know where and how to register formally my employment or small business.	1 2 3 4 5
4. I understand the taxation rules and obligations if I decide to formalize my work.	1 2 3 4 5
5. I am familiar with social security benefits (healthcare, pension schemes) available to formal workers in Cambodia.	1 2 3 4 5

III. Perceived Benefits of Employment Formalization

(Rate how important each benefit is to you personally. 1 = Not important, 5 = Very important)

Perceived Benefits	1 2 3 4 5
1. Access to healthcare and social security benefits	1 2 3 4 5
2. Improved income stability and job security	1 2 3 4 5
3. Enhanced legal protections for my work rights	1 2 3 4 5
4. Higher social status and legitimacy	1 2 3 4 5
5. Easier access to credit and financial services	1 2 3 4 5

IV. Perceived Barriers to Employment Formalization

(Rate how significant each barrier is for you personally. 1 = Not significant, 5 = Very significant)

Perceived Barriers	1 2 3 4 5
1. High registration fees and taxes associated with formalization.	1 2 3 4 5
2. Lack of information about formalization processes and policies.	1 2 3 4 5
3. Complicated and time-consuming bureaucratic procedures.	1 2 3 4 5
4. Fear of losing autonomy and flexibility in my working conditions.	1 2 3 4 5
5. Lack of trust in government authorities and institutions.	1 2 3 4 5
6. Negative attitudes or cultural perceptions within my community regarding formal employment.	1 2 3 4 5

V. Willingness to Formalize Employment

(Indicate your level of agreement with each statement. 1 = Strongly disagree, 5 = Strongly agree)

Statements	1 2 3 4 5
1. I am willing to formalize my employment if the process becomes simpler and more affordable.	1 2 3 4 5
2. I would formalize my employment if social security benefits were clearly demonstrated.	1 2 3 4 5
3. Peer influence significantly affects my decision to formalize employment.	1 2 3 4 5
4. I am more likely to formalize employment if my family encourages me to do so.	1 2 3 4 5
5. I would formalize my employment if the government offered financial incentives or tax breaks.	1 2 3 4 5

VI. Which dimension among economic, social, cultural and psychological do you think is the most important to you regarding formal employment transition?

- Economic Factor
- Social Factor
- Cultural Factor
- Psychological Factor

A.1.2 Interview Guide

Interview flow & questions



Section	Core question (ask of every participant)	follow-ups	Link to survey item
A. Warm-up & context (5 min)	“Can you tell me a little about the work you do each day?”	Motivations for choosing this work; years in informal economy	Demographics 4-5
B. Awareness & information pathways (10 min)	“When you hear the term <i>formal employment</i> or <i>registration</i> , what comes to mind?”	<ul style="list-style-type: none"> • First time they heard about formalisation • Sources of information (peers, TV, officials) • Clarity of the procedures 	Awareness items 1-3
C. Perceived benefits (10 min)	“From your perspective, what would be the <i>good things</i> about becoming formal?”	<ul style="list-style-type: none"> • Rank-order which benefits matter most (healthcare, income stability, legal protection, status, credit) and <i>why</i> each matters/not 	Benefits list
D. Perceived barriers (15 min)	“What makes it hard for people like you to register formally?”	<ul style="list-style-type: none"> • Stories about fees, taxes, paperwork, time costs, fear of losing flexibility, distrust of authorities, community attitudes 	Barrier list
E. Decision calculus & social influence (10 min)	“Imagine the process became simpler—how would you decide whether to formalise?”	<ul style="list-style-type: none"> • Role of family encouragement, peer examples, financial incentives, perceived fairness of enforcement 	Willingness items 1-5
F. Policy & programme suggestions (5 min)	“What could the government or NGOs do that would genuinely encourage you and people you know to register?”	<ul style="list-style-type: none"> • Preferred communication channels • Incentives that feel meaningful • Step-by-step supports 	
G. Closing (2 min)	“Is there anything else you feel researchers or policy makers should understand about informal work and formalisation?”	Appreciation & next-steps explanation	

Estimated total time: 45–50 minutes.

LIST OF FIGURES

Awareness of Formalization Landscape

To what extent do you aware of ...

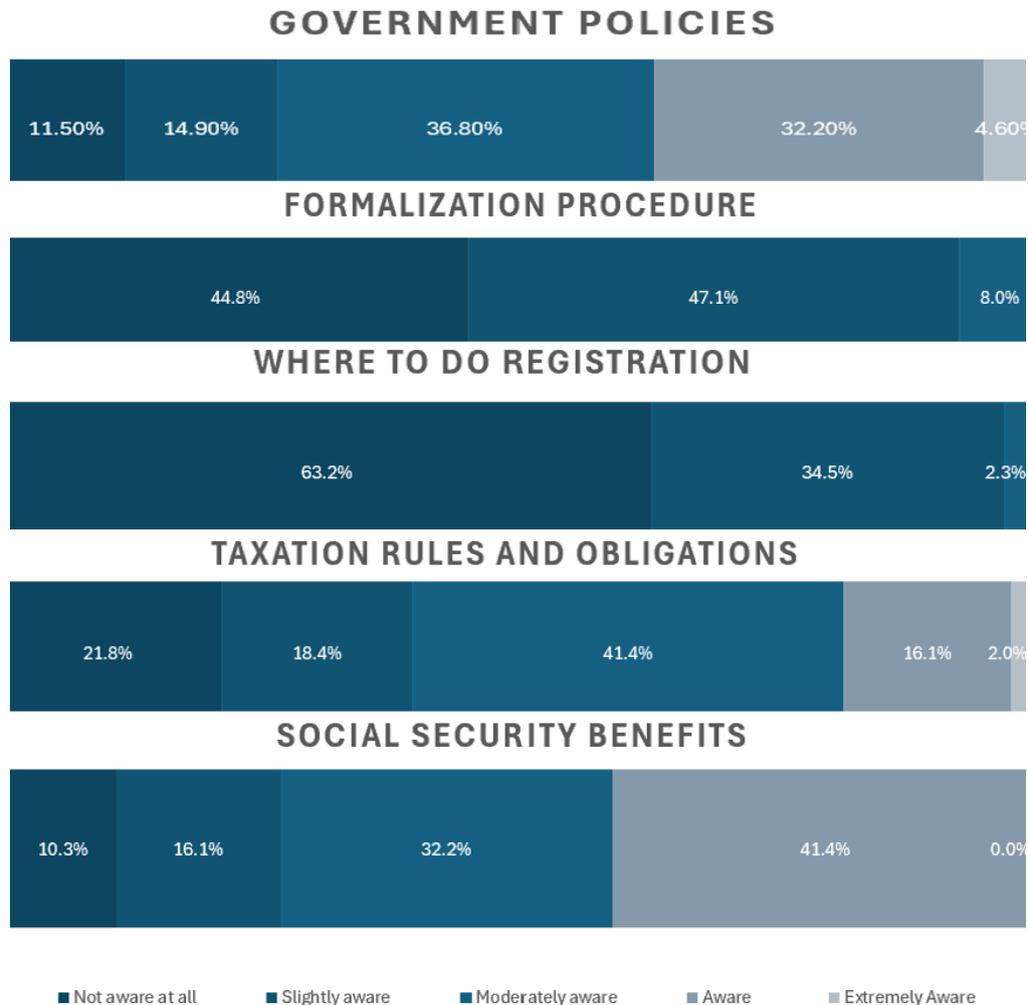


Figure 1 presents awareness of the formalization landscape among 87 informal workers of three sectors in Cambodia, measured on a five-point Likert scale (1 = “not aware at all”, “extremely aware”) across five dimensions of the formalization process. The data highlight a significant “awareness gap” on the registration procedure – for instance, how and where to register their employment. In contrast, their familiarity with mandatory obligations and formalization benefits is remarkably higher.

Motivational Factors Driven Employment Formalization

To what extent do you think this factor motivates you to formalize your employment?

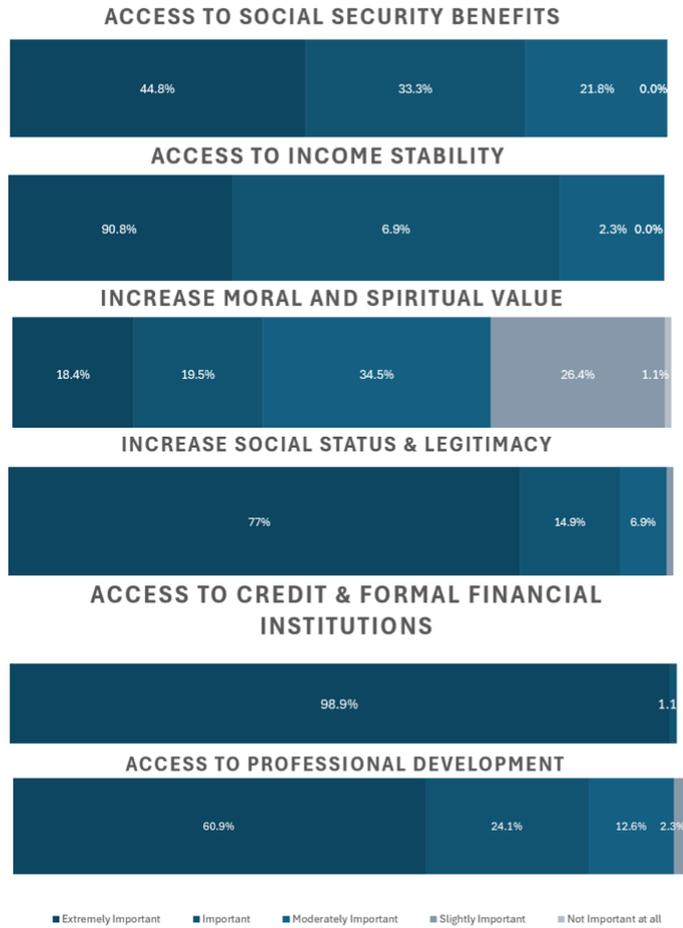


Figure 2 summarizes the perceived benefits of six motivational factors that encourage 87 informal sector workers toward formal employment in Cambodia, rated on a five-point Likert scale (1 = "Not important at all", 5 = "Extremely Important").

Barriers Toward Employment Formalization

To what extent do you think this factor discourages you to formalize your employment?

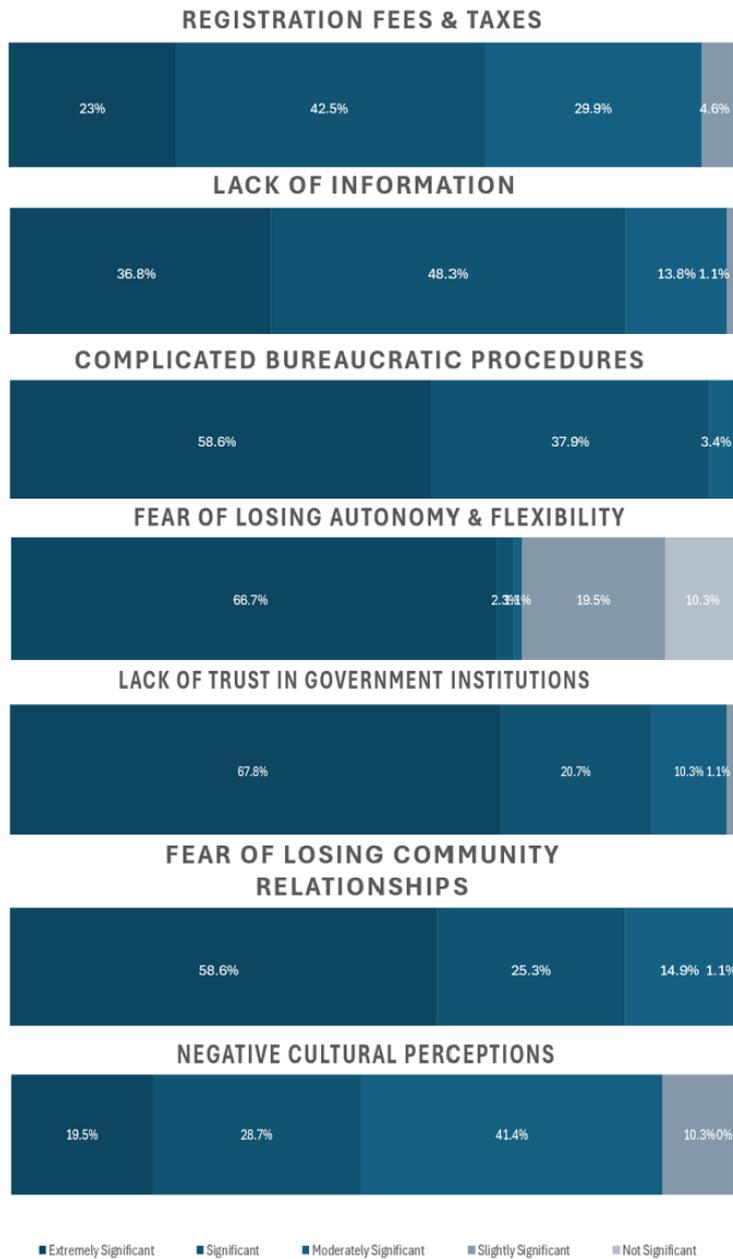


Figure 3 summarizes the perceived constraints of six barriers that discourage 87 informal sector workers toward formal employment in Cambodia, rated on a five-point Likert scale (1 = "Not Significant", 5 = "Extremely Significant").

Primary Factor Driven Employment Formalization

Which factor among economic, social, cultural and psychological do you think is the most important to you regarding formal employment transition?

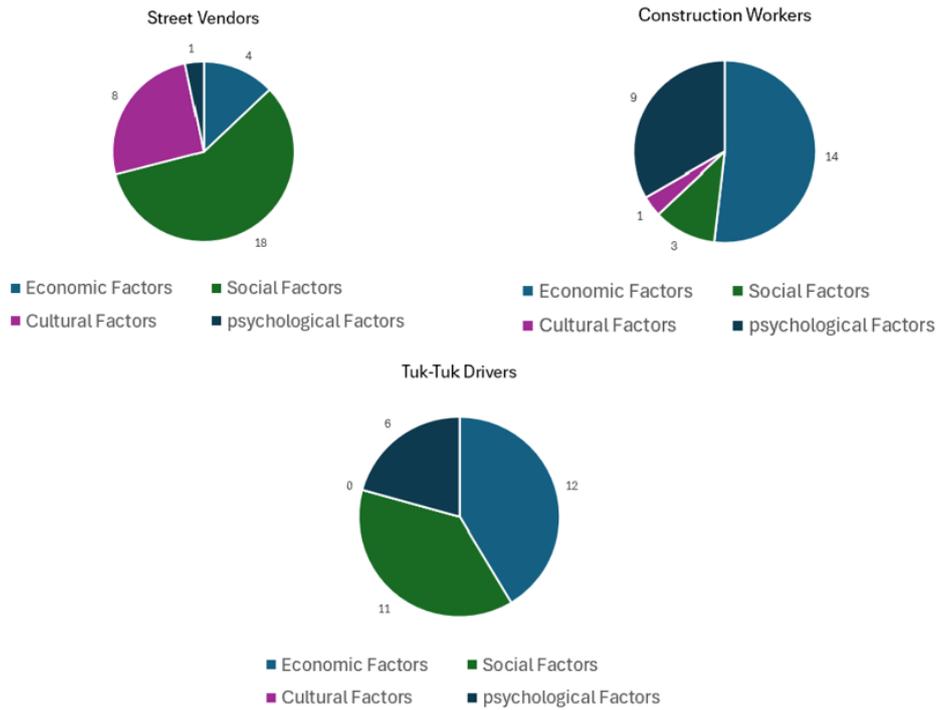


Figure 4 illustrates the number of respondents in each occupational group who identified economic, social, cultural or psychological factors as the single most important consideration for moving from informal to formal employment.

Awareness of Formalization Landscape

Awareness of Government Policies

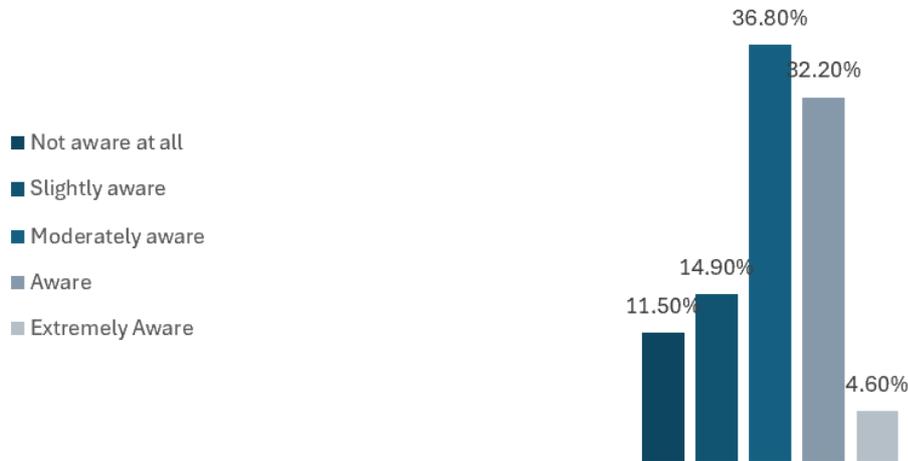


Figure 5 | Q. To what extent do you aware of government policies? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Awareness of Registration Procedure

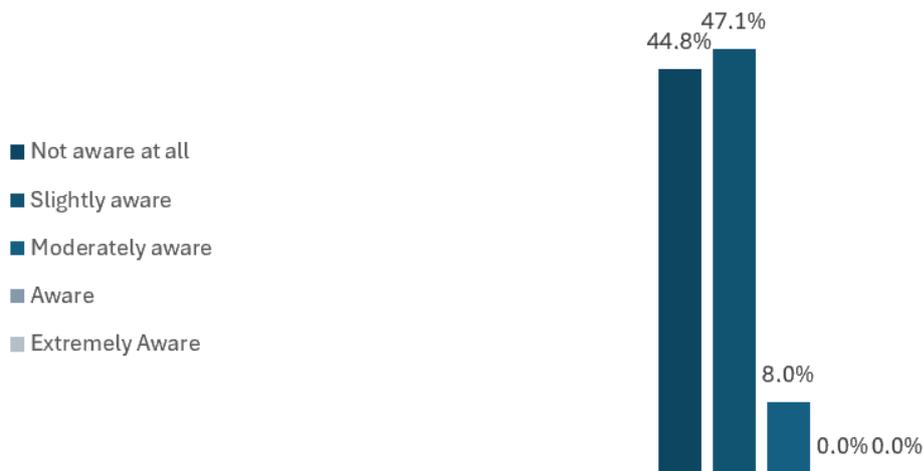


Figure 6 | Q. To what extent do you aware of registration procedure? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Awareness of Where to do Registration

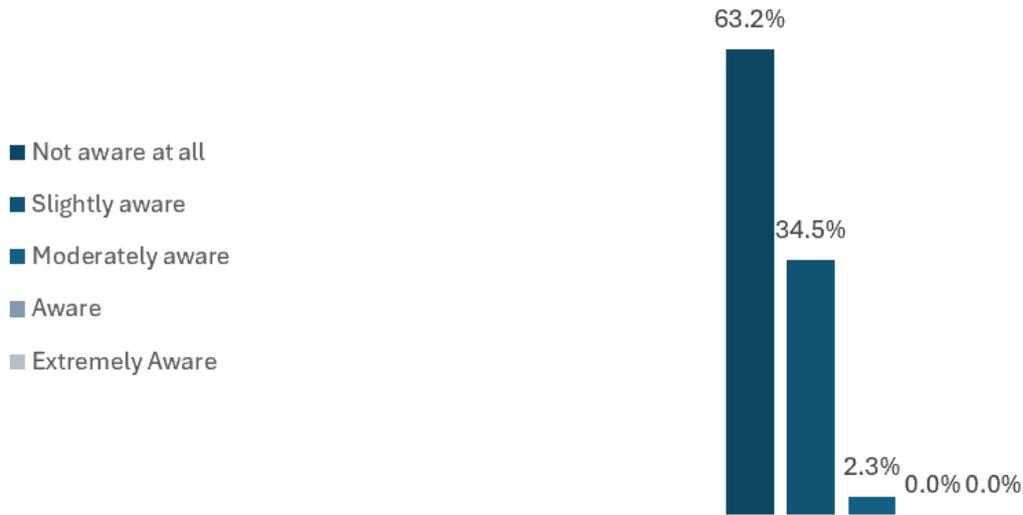


Figure 7 | Q. To what extent do you aware of where to do registration? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Awareness of Taxation Rules & Obligations

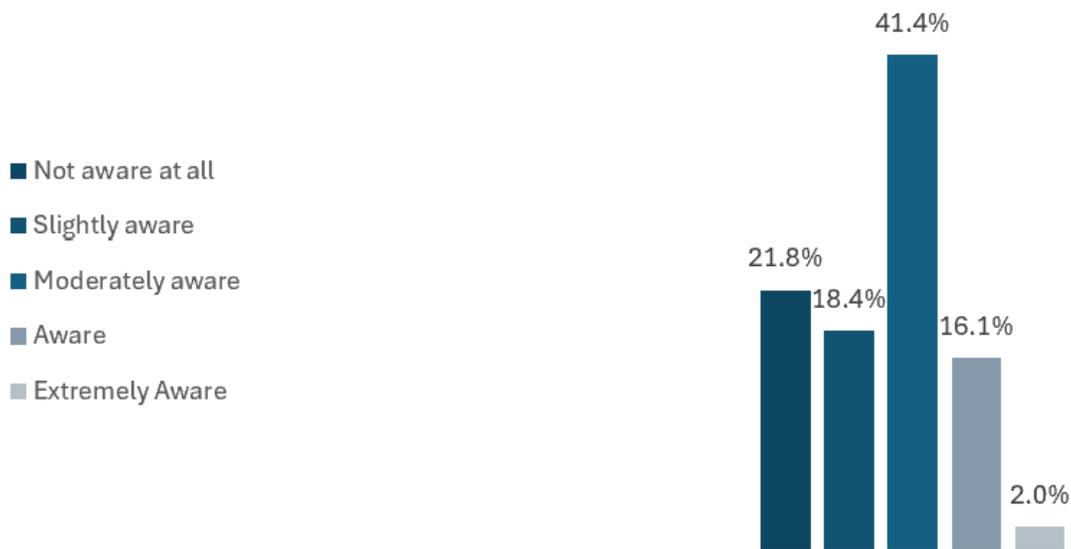


Figure 8 | Q. To what extent do you aware of taxation rules and obligations? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Awareness of Social Security Benefits

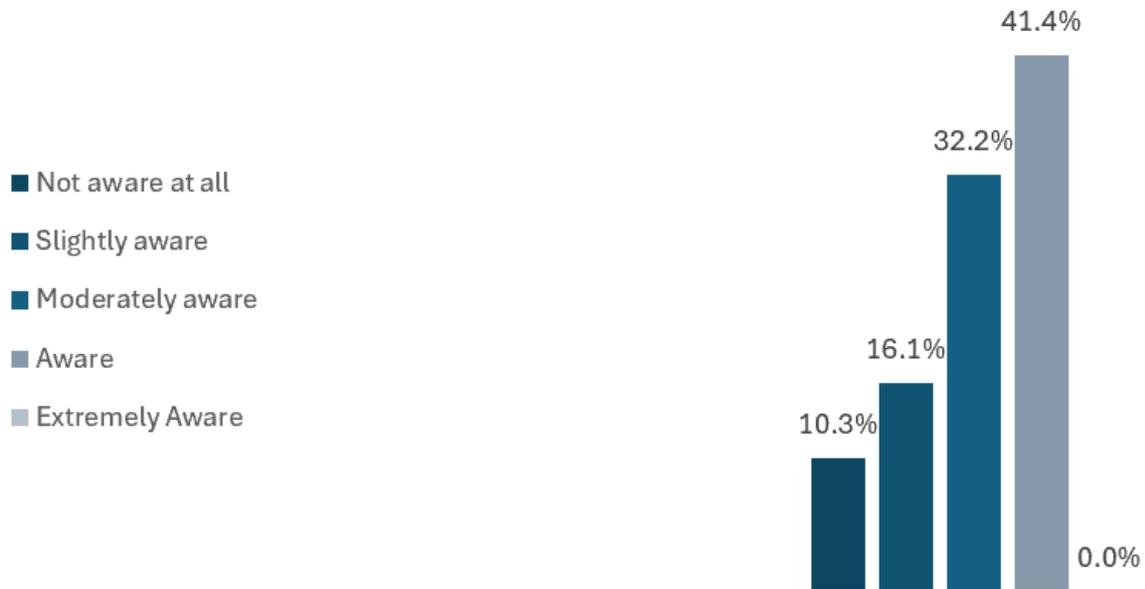


Figure 9 | Q. To what extent do you aware social security benefits? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Perceived Benefits of Employment Formalization

Access to Social Security Benefits



Figure 10 | Q. To what extent do you think access to social security benefits motivates you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Access to Income Stability

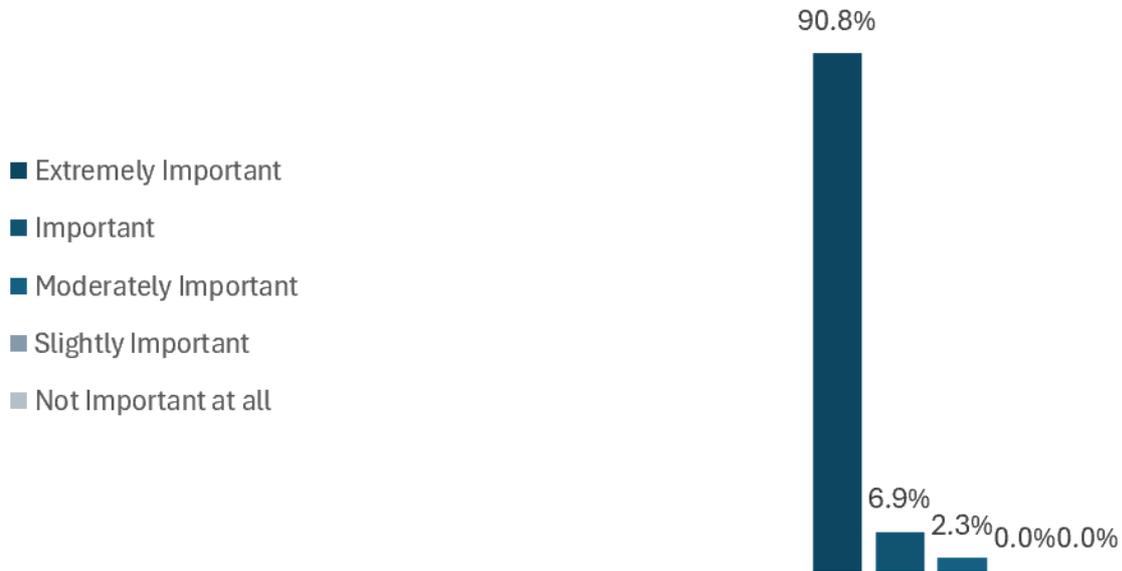


Figure 11 | Q. To what extent do you think access to income stability motivates you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Increase Moral & Spiritual Value



Figure 12 | Q. To what extent do you think increase moral and spiritual value motivates you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Increase Social Status & Legitimacy

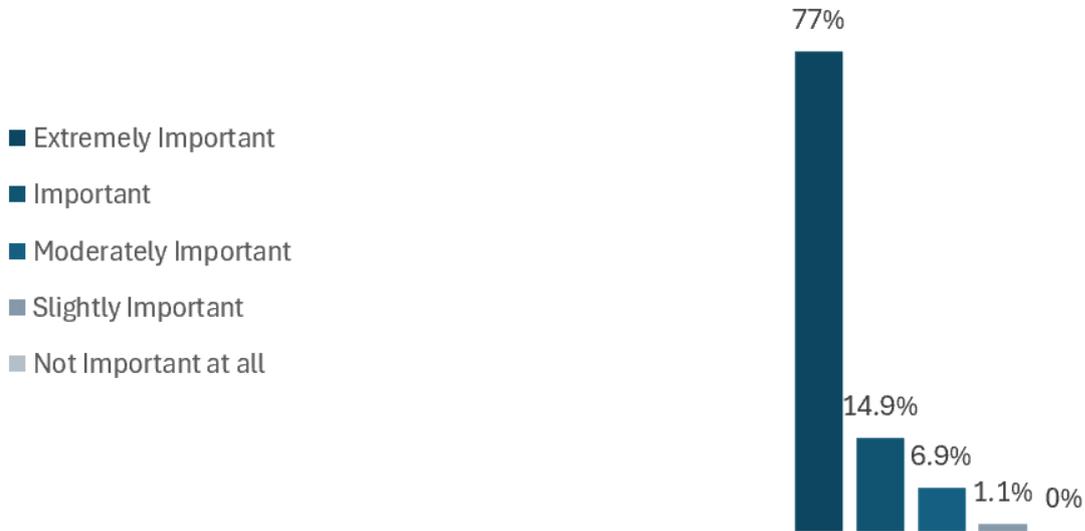


Figure 13 | Q. To what extent do you think increase social status and legitimacy motivates you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Access to Credit & Formal Financial Institutions



Figure 14 | Q. To what extent do you think access to credit and formal financial institutions motivates you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Access to Professional Development

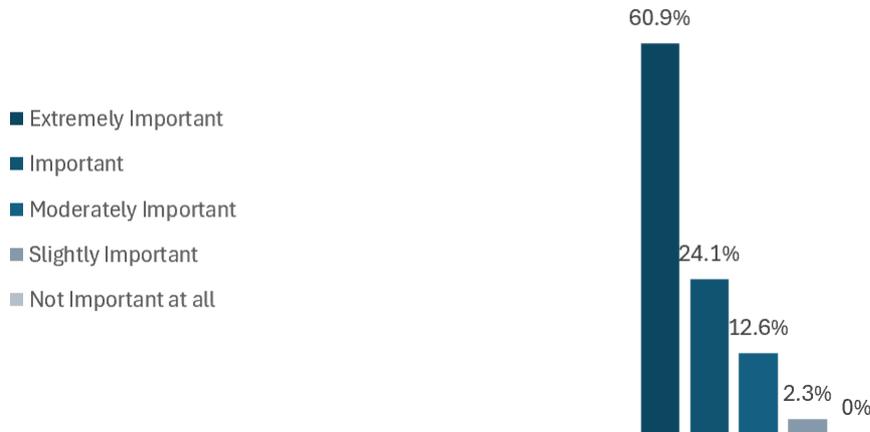


Figure 15 | Q. To what extent do you think access to professional development motivates you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Perceived Barriers to Employment Formalization

Registration Fees & Taxes

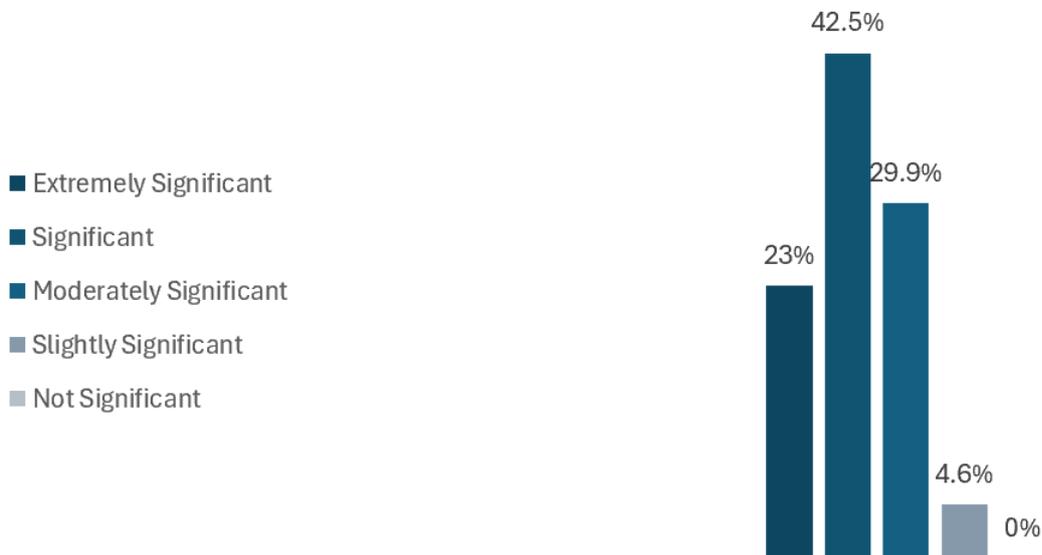


Figure 16 | Q. To what extent do you think registration fees and taxes discourages you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Lack of Information

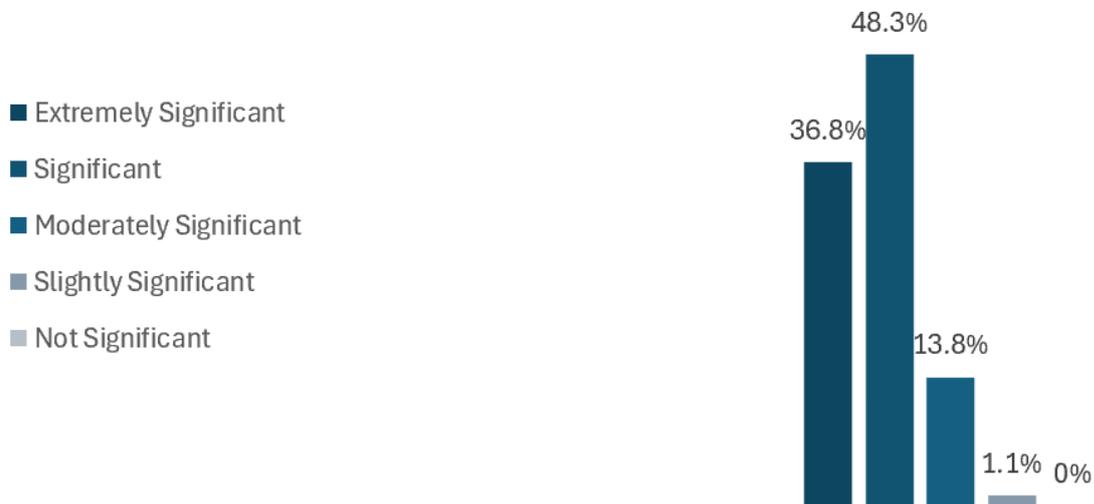


Figure 17 | Q. To what extent do you think lack of information discourages you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Complicated & Time-consuming Procedures



Figure 18 | Q. To what extent do you think complicated and time-consuming procedures discourages you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Fear of Losing Autonomy & Flexibility

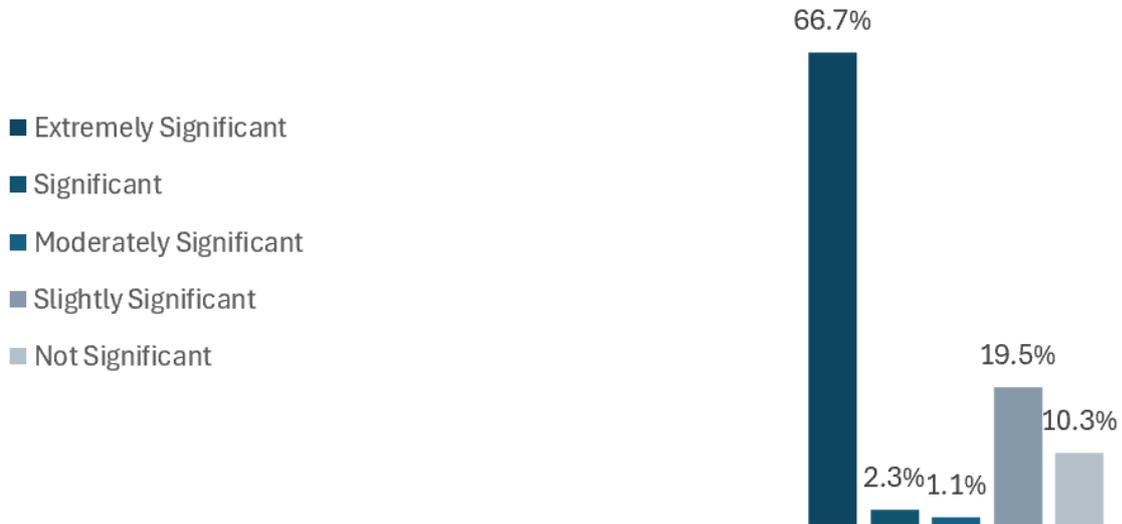


Figure 19 | Q. To what extent do you think fear of losing autonomy and flexibility discourages you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Lack of Trust in Government Institutions

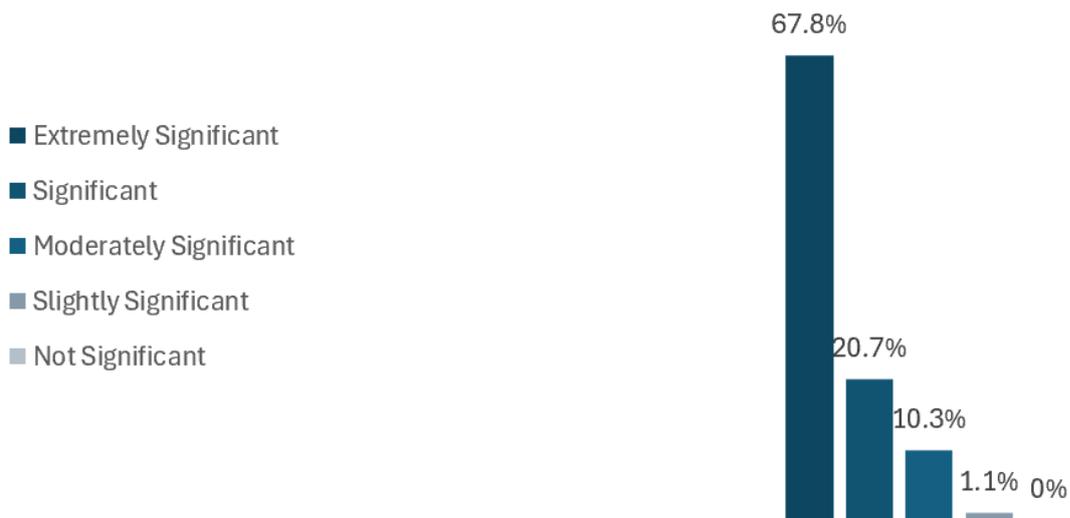


Figure 20 | Q. To what extent do you think lack of trust in government institutions discourages you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Fear of Losing Community Relationships

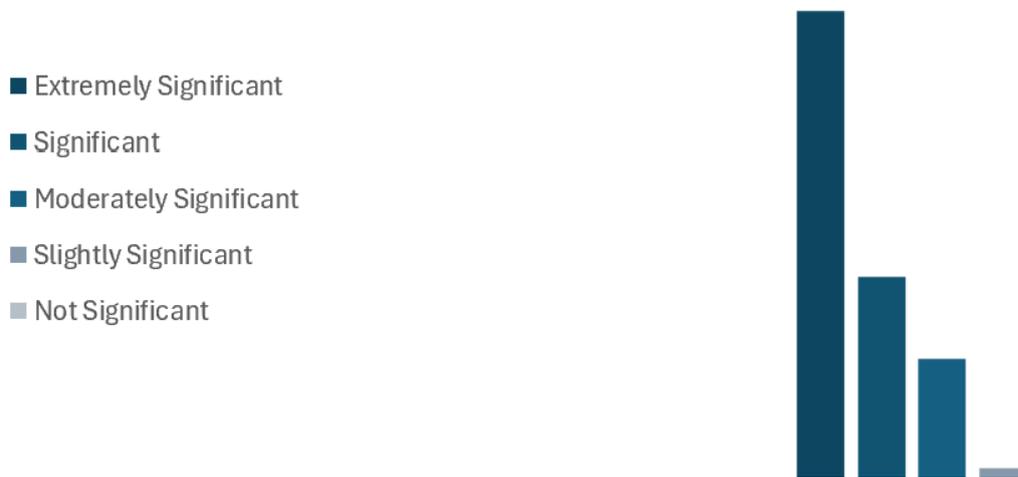


Figure 21 | Q. To what extent do you think fear of losing community relationships discourages you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Negative Cultural Perceptions



Figure 22 | Q. To what extent do you think negative cultural perceptions discourages you to formalize your employment? Total n=87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Primary Factor Driven Employment Formalization

Economic Factors Driven Formalization

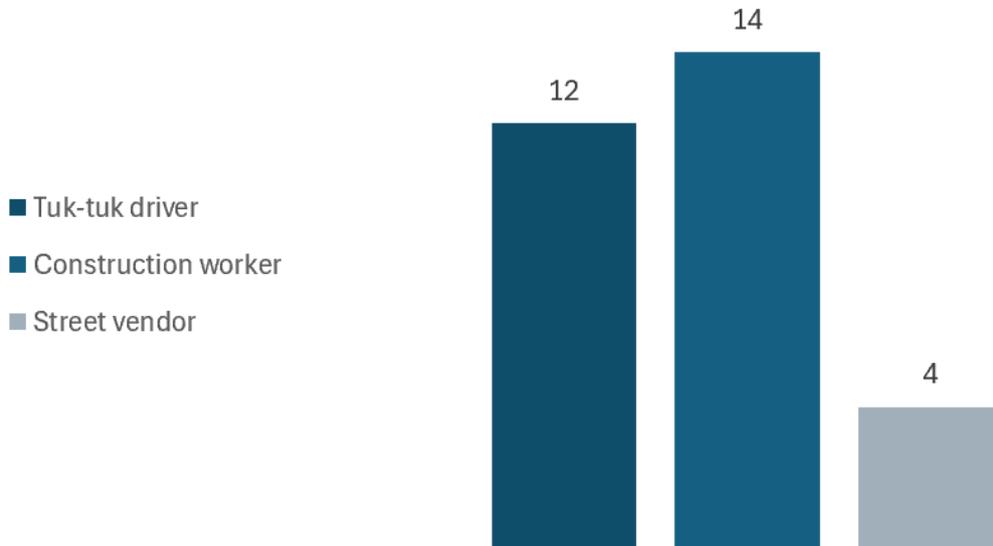


Figure 23 | Q. Which factor among economic, social, cultural and psychological do you think is the most important to you regarding formal employment transition? Total n = 87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Social Factors Driven Formalization

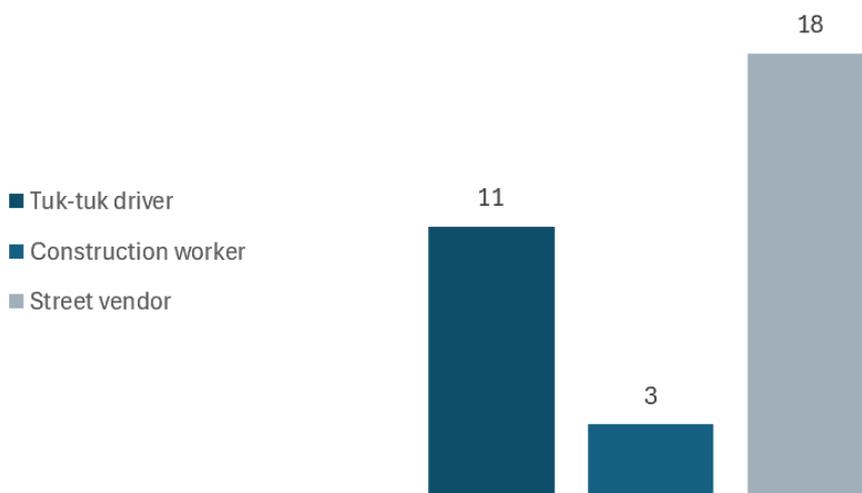


Figure 24 | Q. Which factor among economic, social, cultural and psychological do you think is the most important to you regarding formal employment transition? Total n = 87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Cultural Factors Driven Formalization

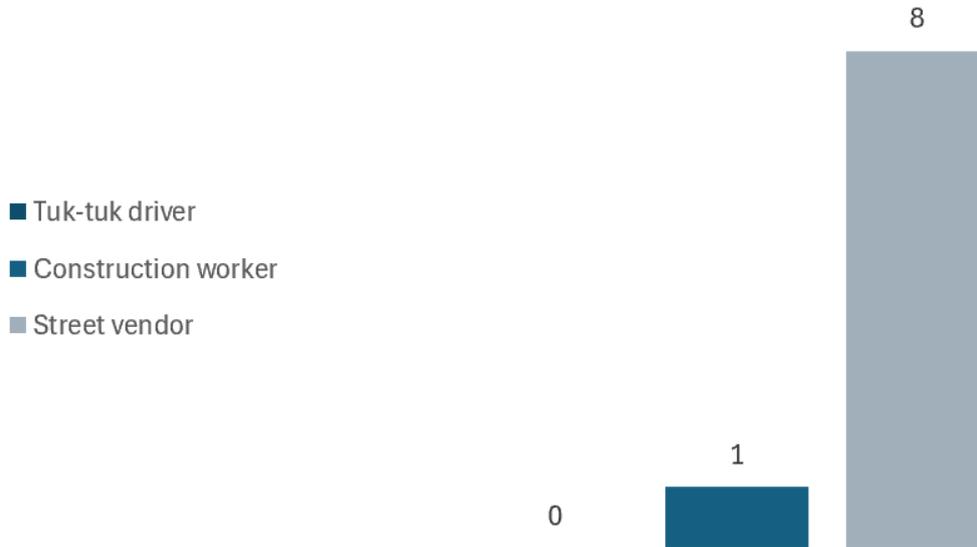


Figure 25 | Q. Which factor among economic, social, cultural and psychological do you think is the most important to you regarding formal employment transition? Total n = 87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Psychological Factors Driven Formalization

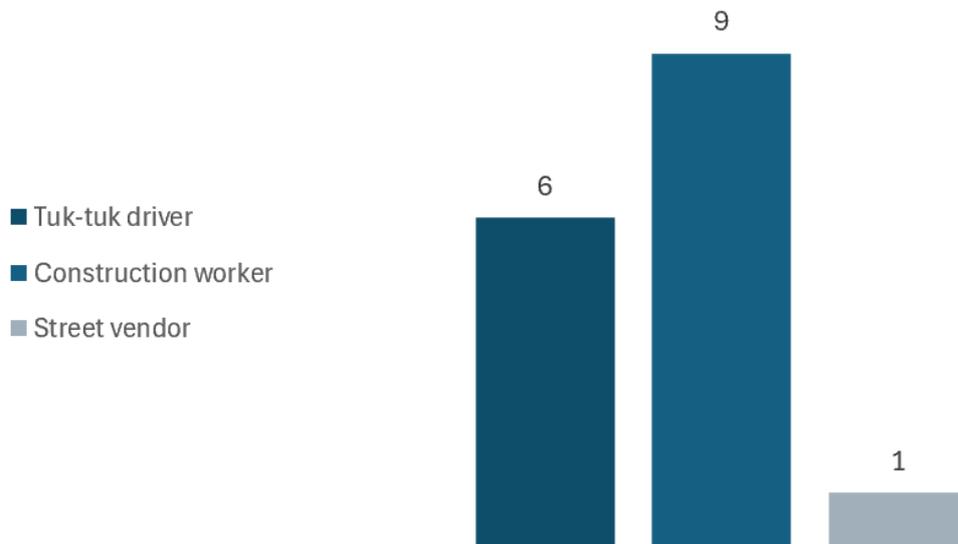


Figure 26 | Q. Which factor among economic, social, cultural and psychological do you think is the most important to you regarding formal employment transition? Total n = 87, Street vendor n = 31, Construction worker n = 27, Tuk-Tuk driver n = 29.

Which factor among economic, social cultural and psychological do you think is the most important to you regarding formal employment transition?

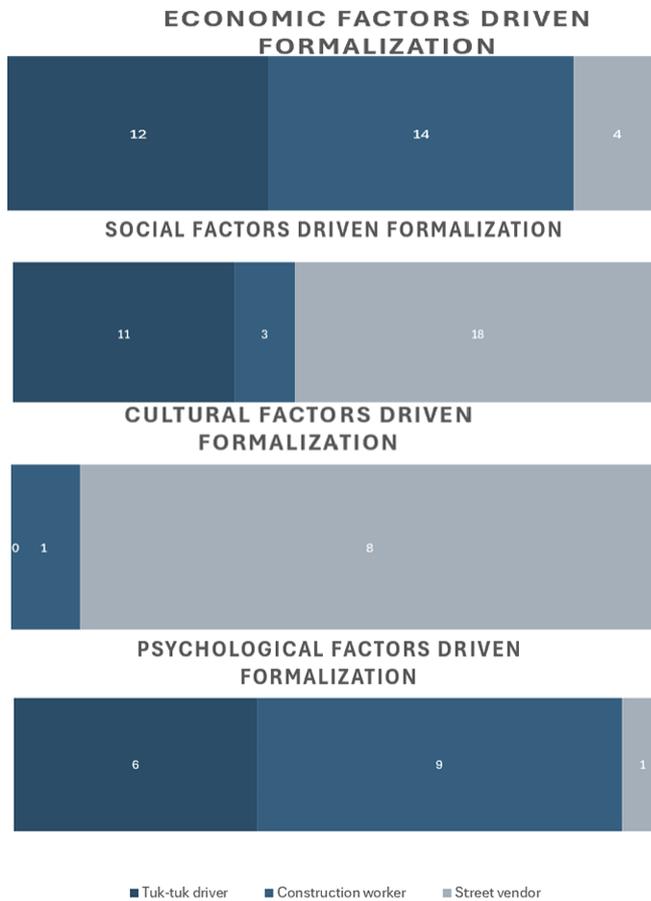


Figure 27 illustrate the single factor that each of 87 informal workers perceive as most significant to move from informal to formal employment.