

# Report: Tonga Informal Business Survey 2021

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## PARTNERSHIP BETWEEN



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## 4. Executive summary

The **Tonga Informal Business Survey 2021** (TIBS, 2021) contains information about the type of economic activities, challenges and opportunities from **2,301** economic units in **1,519** sampled households. The main findings from a general descriptive analysis are the following:

1. Most informal businesses focus on two main types of activities: agricultural activities and small-scale manufactures. These activities are undertaken mainly with the purpose of selling their goods but there is also home consumption. Most businesses note locals as their main customers but there is a group that also exports their goods. Figure 1.
2. Women-headed businesses are rather different than the male-headed businesses. Women tend to perform small-scale manufactures and men are predominantly focused on agriculture. Women-headed businesses focus more on sales than males' activities.
3. Women-headed activities are more targeted at sales than men's businesses, which are more likely for own-consumption. Also, women-headed businesses are less likely to be part of a cooperative. Figure 21.
4. Most businesses (75%) started before the 2020 COVID-19 pandemic, emerged from preferences of self-employment over other types of economic involvement offering the potential for better income and providing a chance to meet their basic needs. Table 2 and Table 3.
5. Most businesses started with personal funding and very little involvement of official institutions whilst more than 60% were not aware of the need to register their business. Figure 2.
6. Few businesses employ more than one person (17%), the employees are mainly casual (56% out of 476), a mixture of non-family members and household members and earn less than \$200 a month. Almost, half of all workers are paid in kind (n=221). Table 4.
7. Around 70% of businesses have the equipment for operating their activities, 19% declared that they do not have the right equipment. Affordability is the main cause of businesses lacking the equipment they

need. The estimated cost of equipment varies significantly, around 75% of those that need equipment estimate the cost to be less than \$1,100. Figure 4.

8. Around 80% of businesses make a profit from their activities. Businesses with low sales are also those who are more likely to suffer losses. Figure 7.
9. Mid and small-profitable businesses are more common across women than men. Highly profitable businesses are much more prevalent among men than women. Figure 26.
10. The majority of businesses have a bank account (69%). This account is often used also for personal matters (83%). However, informal businesses rarely rely on banks for funding (30%) and many, 60% declared that they are not interested in getting a loan. Table 9.
11. Around 50% of businesses declared that they have not received support. Among those that mentioned that they received support, the vast majority did so from private businesses. Figure 12.
12. Businesses would benefit the most from provision of technical tools and securing finance but very few know that there are options in Tonga - only 9% knew of the assistance from MTED. Insufficient funding and lack of opportunities for trade are the main challenges faced by businesses. Figure 13.
13. The effects of the COVID-19 pandemic are mixed. Out of those that responded to the question about the impact of COVID (n=1733), 40% said that their sales dropped, 12% said their sales increased and 48% declared no changes. Table 11.

## 5. Introduction

This report uses data from the **Tonga Informal Business Survey 2021**, which provides an in-depth exploration of the type of informal businesses, main sources of funding, the challenges in terms of equipment for production, an overview of the revenue and expenses of the businesses, an exploration of the extent of access

to financial institutions, a picture of the challenges faced in the context of the COVID-19 pandemic and the analysis of women participation.

The report is descriptive in nature with the aim to provide an overview of the main results based on univariate statistics. This has the advantage of covering all the topics included in the survey and to set up further questions for more profound analyses. Therefore, basic tabulations and plots are used throughout the report to communicate the findings more easily.

The report is organised as follows. The first section describes the main characteristics of informal business such as the purpose of the activity, whether the business was created before the COVID-19 pandemic and the reasons why the business has or has not been registered. The second section explores the type of involvement of employees -wages, part or full-time participation, household member or not, children involvement-. The availability, costs and uses of tools and infrastructure for business is explored in section three. The fourth section looks at the estimates of revenue, expenses, and opportunities for investment. The role and use of financial institutions for funding the activities is assessed in section five and development support from customers or different organisations is explored in section six. The seventh section is about the potential challenges and prospects for the informal business -funding and unskilled workers-. Section eight is devoted to the operations of the business in the context of the COVID-19 pandemic. Mainly, this section focuses on the impact of the pandemic and the support needed and received from different institutions. The final section concludes the document.

## **6. Background and objectives**

The Ministry of Trade and Economic Development (MTED) contributes to the economy of Tonga by supporting the development of a more inclusive, sustainable and dynamic knowledge-based economy. In its Corporate Plan for 2019/20-2021/22, the Policy and Planning Division of the MTED established initiatives to develop closer public private partnerships with its stakeholders, strengthen Tonga's business enabling environment and support the access to and use of trade, employment and foreign Investment. MTED recognizes that in order to achieve



inclusive and sustainable economic development for Tonga, it must engage and support the informal sector.

The informal sector represents an important part of the economy and the labour market in many developing countries, including Tonga. It plays a major role in employment creation, production and income generation and represents a substantial portion of economic activity, contributing significantly to Tonga's economic growth. For the purpose of this survey, the characteristics of an informal sector are small-size activities, invisibility, and high rates of entry and exit. Furthermore, informal sector enterprises do not enter the business registers, or the listed frames usually maintained by the national statistical office, so little data on the informal sector exists and its contribution to gross domestic product (GDP) is often understated. Due to the lack of information on the informal sector, the Policy and Planning Division of the MTED approached the PSDI to finance a Survey on Tonga's informal sector. The initiative was supported and funded by the PSDI hence the SSSMT Firm was engaged to undertake the Survey. The results of this Research will be used by MTED to assist in developing appropriate strategies and policies to assist informal businesses in Tonga.

The objectives of the Survey included:

- To map informal business activities according to activity, sectors and sub-sectors (International Standard of Industrial Classification [ISIC] codes).
- To identify constraints (including COVID-19) to business growth and development in the informal sector.
- To seek input on alternative business structures for those considering transition to the formal economy.
- To identify the level of understanding in the informal sector regarding MTED, its work programs and services offered to businesses.

The survey covered aspects of:

- Organization and status of business
- Business activities

- Employment
- Production and sales
- Expenditures on raw materials and equipment
- Investment, financing and debt
- Business environment
- Problems and prospects (including COVID-19)
- Access to financial institutions and other support structure

## 7. Methods

### 7.1. Data collection

The measurement of informality is relatively recent and there are several challenges that need to be addressed for a successful and comprehensive statistical exercise about it. Although The International Labour Organization (ILO) has developed a series of guidelines for the definition and measurement of informality, inter-country variations and the lack of a sampling framework -i.e. a census of formal and informal businesses- make difficult to do so in an harmonised and systematic way. According to the ILO (1993):

- (i) own-account workers employed in their own informal sector enterprises;*
- (ii) employers employed in their own informal sector enterprises;*
- (iii) contributing family workers, irrespective of whether they work in formal or informal sector enterprises;*
- (iv) members of informal producers' cooperatives;*
- (v) employees holding informal jobs (as defined in subparagraph (5) below) in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households;*
- (vi) own-account workers engaged in the production of goods exclusively for own final use by their*

*household, if considered employed according to paragraph 9(6) of the resolution*

*Own-account workers, employers, members of producers' cooperatives, contributing family workers, and employees are defined in accordance with the latest version of the International Classification of Status in Employment (ICSE).*

*Producers' cooperatives are considered informal if they are not formally established as legal entities and also meet the other criteria of informal sector enterprises specified in the resolution concerning statistics of employment in the informal sector adopted by the 15th ICLS.*

*Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.).*

Drawing upon these definitions and acknowledging the sampling challenges of the measurement of informality, this exercise relies on two-staged sample. First, a sample from a series of households was taken into consideration. Second, the households were enumerated to assess if they participated in *informal* activities - mainly relying on household's resources-. As in many countries, the total population in informal activities is unknown. Hence, these results might not be fully representative. Nonetheless, this exercise is meant to be a first and general characterisation of informal activities in Tonga.

The survey has a total sample size of **2,301** economic units in **1,519** sampled households. That is, the sample unit of analyses were households and within each household it could be possible to find more than one informal business. To have an idea of the distribution of the sample households by island, relative to the known distribution from the latest Census, the following table (1) displays the percentages by islands. The table suggests that there is agreement between the two distributions and that the results are generalisable to some extent. The limitation is that the total number of households with informal activities is unknown, and it is not possible to generate sampling weights to make more robust

inferences. The appendix 1 shows information of the type of economic activity by island to have a better sense of the distribution across different territories.

*Table 1: Sample size distribution by Island: Informal business survey and HIES 2016*

Island	Informal business survey		HIES 2016	
	Total	% Col	Total	% Col
Tongatapu	1,032	68	15,394	70
Vava'u	248	16	3,512	16
Ha'apai	142	9	1,661	8
'Eua	97	6	1,095	5
Ongo Niua		NA	359	2

## 7.2. Analysis

The report aims to provide an overview of the main findings of the survey. Hence, it is descriptive in nature. Simple frequencies, cross-tabulations and averages by groups were used throughout the report. To facilitate the reading of the analysis, the report uses mainly plots and tables. The survey was processed in R-software and RMarkdown. The following packages were used for producing the tables, plots and the main document: `tidyverse`, `officedown`, `descr`, `flextable`, `viridis`, and `ggpubr`.

## 8. Results

### 8.1. Informal business

Figure 1 displays the main types of economic activities performed by the informal businesses in the sample (n=2,301). Root crops, mat production, Tapa making and Ta'ovala manufacturing are the four main activities and account for 50% of all activities. The rest of activities are a mixture of agricultural, commercial imported goods and handicraft activities. However, there is a lot of variety in the sorts of products, and, in many cases, some activities constitute less than 2% of the total range of endeavours.

Figure 1: Distribution of the most important types of activities performed by the informal businesses

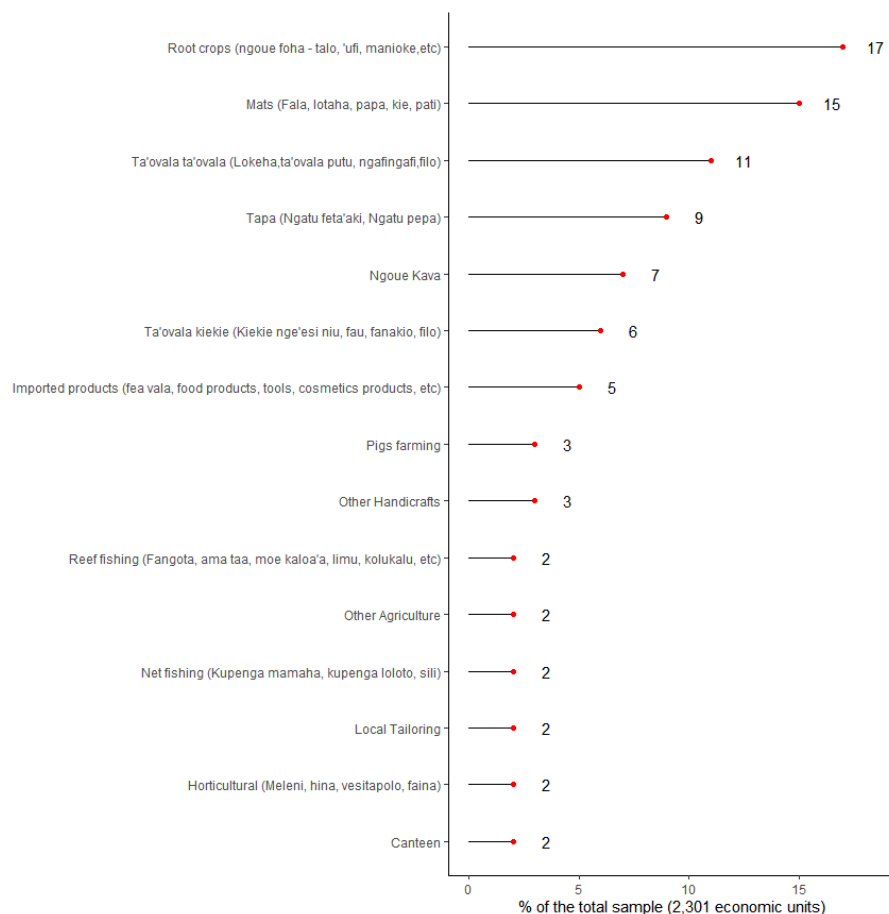


Table 2 shows that the main purposes for doing the activity are for selling goods with some home consumption. Almost 80% of the businesses have this purpose. The majority of businesses started before the COVID-19 pandemic but around 15% started after the pandemic commenced. The economic activity rarely takes place with organised groups or cooperative societies, less than one in five businesses are related to any groups of cooperatives.

*Table 2: Purpose and characteristics of the business. Single choice given*

Question	Category	Percent (% cols)
What is the purpose of doing the activity	Only for home consumption	9
	Mainly home consumption, but some sale	15
	Mainly sale, but some home consumption	35
	Only for sale	42
	<b>Total</b>	<b>100</b>
How long have you been operating in this activity	Started before COVID-19 (2019)	75
	Started during COVID-19 ( 2020 - Now)	16
	NA's	9
	<b>Total</b>	<b>100</b>
This activity involves or works closely with any group?	Yes - 'lo	18
	No - 'lkai	82
	<b>Total</b>	<b>100</b>
Do you want to join or include your activity Cooperative Societies?	Yes - 'lo	16
	No - 'lkai	84
	<b>Total</b>	<b>100</b>

Table 3 shows that the main reasons for deciding to run a business were that people preferred self-employment as it offers the opportunity of having a higher income. A 32% of the total sample responded that they have the skill to undertake the activity. When asked about the goals that represent the activity, subsistence living, fulfil church obligations and functions, and paying children's school fees were the most highly endorsed options.

*Table 3: Reasons why the business was undertaken and targets and goals of the activity*

Question	Label	Percent (Multiple choice)
What are the reason(s) for starting your	Prefer self-employment	50
	Better income	94
	No other alternatives	5
	High demand	4
	Influenced by others	4
	I have the skill	32
Which targets or goals the one which best represents your activity	Subsistence living	83
	Paying of children's school fees	52
	Fulfill church obligations and functions	81
	Making a profit to expand business	5
	Used as a form of employment for youths in the community	1

With regards to the reasons given for the lack of registration of the business, 60% of interviewees declared that they were not aware that they should register their business, 20% responded that they didn't understand the process for registration, around 15% said that they didn't see the benefits of doing so and almost 10% declared that the registration was too costly. The other options were not endorsed by more than 5%.

Figure 2: Reasons given for the lack of registration of the business

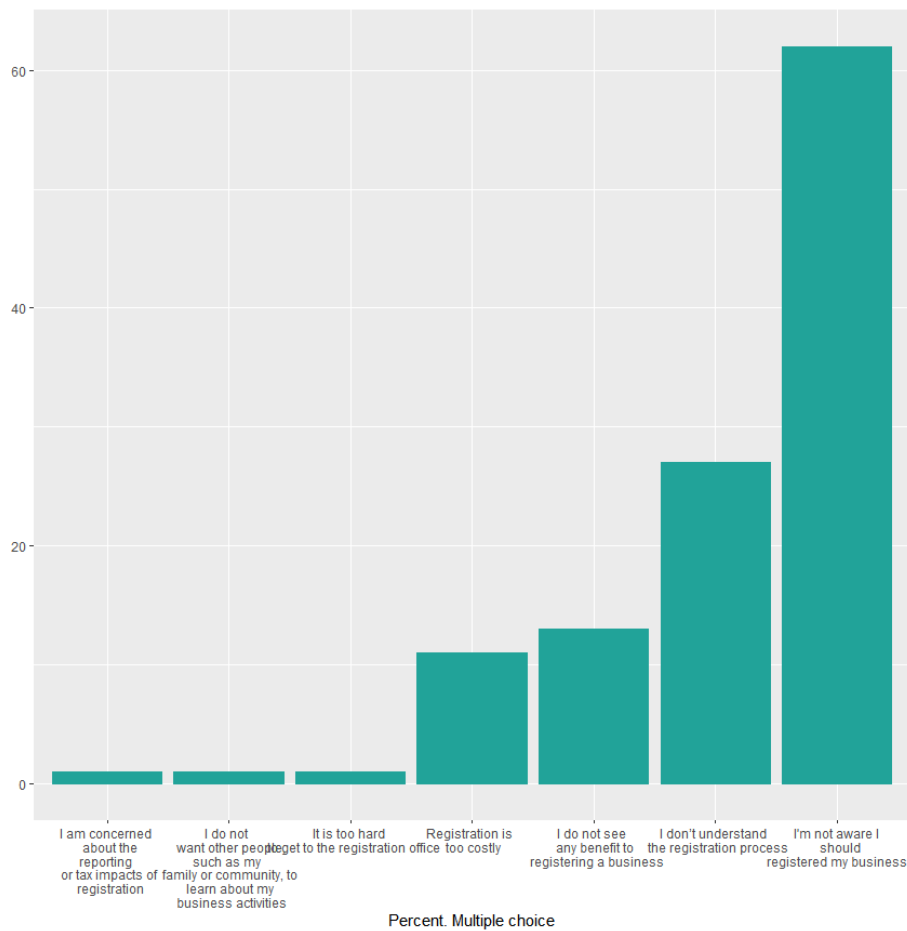
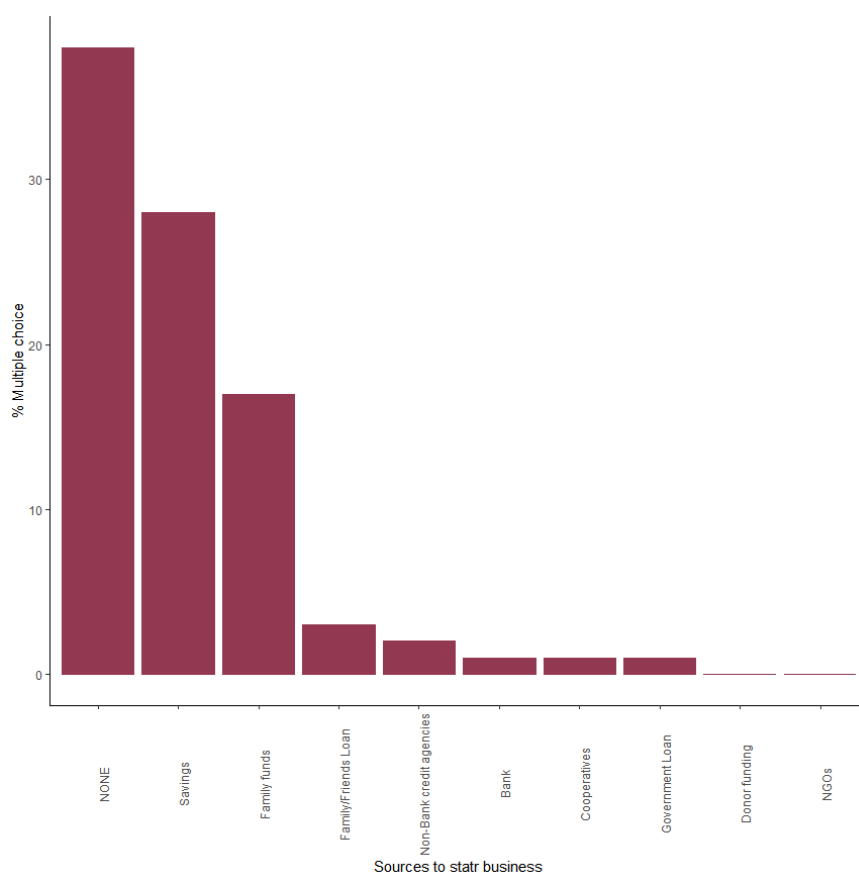


Figure 3 displays the different sources people used for starting their businesses. A large proportion mentioned that they rely on their own sources, either their savings or family funds. More than a third said that they did not use any types of sources. Almost 30% said that they use their savings, almost 20% declared that they use their family funds. Very few people declared using other institutionalised sources of funding like bank or government loans or credits.



Figure 3: Sources for starting the business. Percentages from multiple choice



## 8.2. Employment

This section explores the number and characteristics of employees among the informal businesses. Table 4 shows that having employees is quite rare among these types of economic activities. Around 80% of businesses do not have any employees. The size of businesses with employees is, overall, relatively small - between 1 and 3 workers. Around 10% include the economic participation of children and in most of the cases, employees' participation is casual. Full-time participation is rare - only 169 cases - and 36% have part-time workers - out of the businesses with workers.

Most of the workers in informal businesses are males (63%), six out of ten are non-family workers, 20% are household members and 20% are related but do not belong to the same household. In terms of wages, 60% earn between \$1 and \$100, 30% between \$101 and \$200. Almost half of all workers are paid in kind.

*Table 4: Characteristics of the employees in informal business*

Question	Category	Percent (% cols)	Frequency
How many workers you are currently employing?	0	83	1919
	1	3	60
	2	2	50
	3	1	23
	4	1	25
	5	1	14
	6	0	10
	7	0	1
	10	0	1
	NA's	9	198
<b>Total</b>	<b>100</b>	<b>2301</b>	
Involve children?	Yes	11	259
	No	80	1844
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
What type of workers is this employee	Part-Time	36	169
	Full-Time	8	40
	Casual	56	267
	<b>Total</b>	<b>100</b>	<b>476</b>
What is the sex of this worker?	Male (Tangata)	63	298
	Female (Fefine)	37	178
	<b>Total</b>	<b>100</b>	<b>476</b>
Is the employee	Household member	20	93
	Family but NOT household members	20	97
	Non-family	60	286
	<b>Total</b>	<b>100</b>	<b>476</b>
What is the estimated wages on a weekly basis?	\$1 - \$100	61	288
	\$101 - \$200	29	138
	\$201 - \$300	7	31
	\$301 - \$400	1	7
	\$401 - \$500	2	10
	\$501+	0	2
	<b>Total</b>	<b>100</b>	<b>476</b>
Does employee received other IN KIND income?	Yes - 'lo	46	221
	No - 'lkai	54	255
	<b>Total</b>	<b>100</b>	<b>476</b>

### **8.3. Equipment for business operations**

More than two-thirds of all businesses have the right equipment for operating their activities (Table 5). However, around 20% declared they lacked the equipment to do so (n=447). When asked about the reasons why they don't have

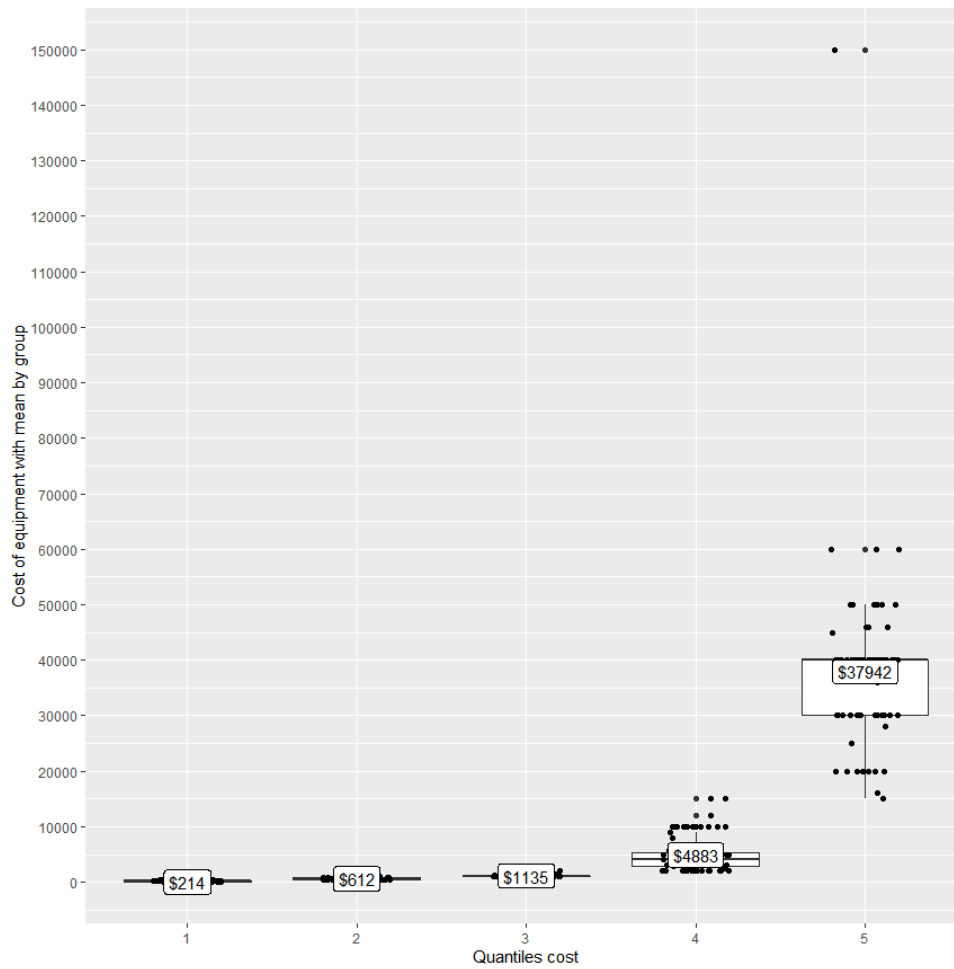
their own equipment, the vast majority mentioned that they could not afford it (n=436). The other given reasons were not chosen by the interviewees.

*Table 5: Business in need of equipment and reasons they do not have it (n=447)*

Question	Category	Percent (% row)	Frequency
Do you have the right equipment to operate your business?	Yes - 'lo	72	1656
	No - 'Ikai	19	447
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
Cannot afford	0	0	11
	1	19	436
	NA's	81	1854
	<b>Total</b>	<b>100</b>	<b>2301</b>

When the businesses in need of equipment were asked about the costs, the answers had significant variability. Figure 4 groups all businesses reporting equipment costs into five categories of the same size - from the cheaper to the most expensive. The mean value for each group is reported in a box and the dots represent the range of costs within the group. The first three quantiles -i.e. the 75% of businesses - declared that the cost oscillated between \$214 and \$1,135. The fourth quantile estimated an average cost of \$4,883 and the last one an average price of \$37,942. Groups three and four, however, showed great deal of variability indicating that the equipment costs fluctuate a lot for those businesses with costs above \$5,000.

Figure 4: Mean cost of equipment for those business that need it (n=436)



The participants were asked about the cost of fixing the equipment in case they faced any problems. Very few mentioned having any issues (n=110, 5%) and the vast majority declared that the cost of fixing it would be less than \$1,000.

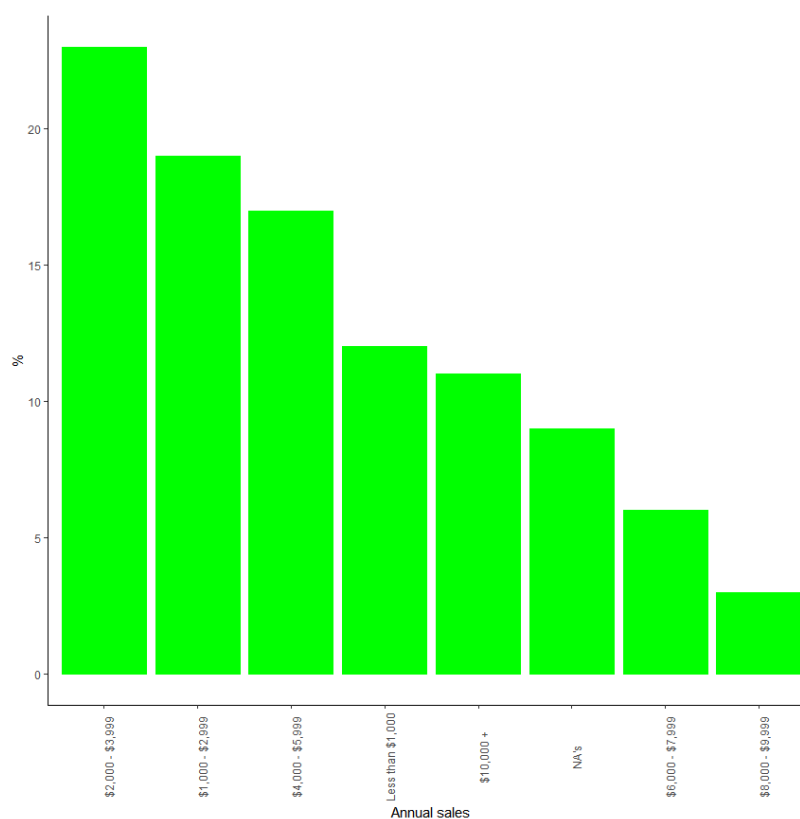
Table 6: Money spent for fixing the equipment

Question	Category	Percent (% rows)	Frequency
If you have the equipments, are there any issue that you had faced with especially with purchase or repair of equipment's used for your?	Yes - 'lo	5	110
	No - 'lkai	15	337
	NA's	81	1854
	<b>Total</b>	<b>100</b>	<b>2301</b>
Could you provide an estimate of the expenditure and costs you spend on the equipment's you use on a monthly basis	Less than \$1,000	3	71
	\$1,000 - \$2,500	1	25
	\$2,501 - \$3,500	0	9
	More than \$ 3,501	0	5
	NA's	95	2191
	<b>Total</b>	<b>100</b>	<b>2301</b>

## 8.4. Revenue and expenses

Figure 5 shows the distribution of both annual sales and annual cost by different ranges. 12% have annual sales of less than \$1,000. Around 60% of businesses have annual sales between \$1,000 and \$6,000. Around 10% of businesses declared having annual sales of more than \$10,000.

Figure 5: Distribution of reported annual sales by ranges



When looking at the costs, the distribution is quite skewed towards the lower values. Almost 80% of businesses have annual cost of less than \$3,000. This means that on average the businesses make more and earn more money than they spend throughout the year.

Figure 6: Distribution of annual costs by ranges

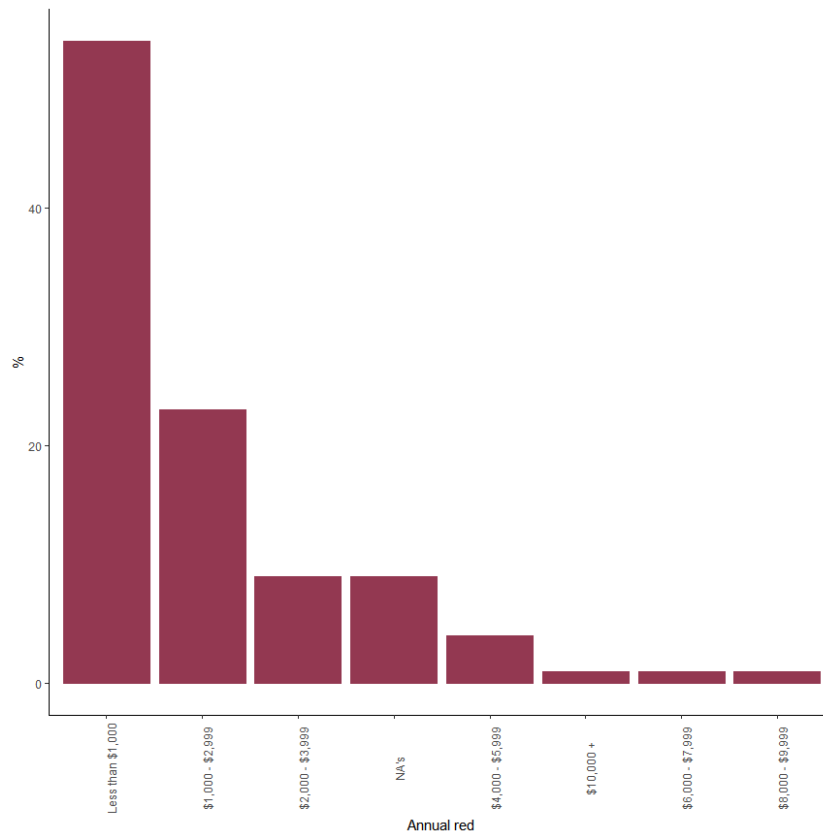


Figure 7 orders the businesses by the reported annual sales and categorises each group by their differences in costs and sales. The vast majority of businesses make a profit (For instance, 81% of business made profits). Those businesses that report a small number of sales are those more likely to suffer from loses or to breakeven in terms of costs and sales. The higher the earnings the higher the chances of making profit.

Figure 7: Profitability categorised by annual sales

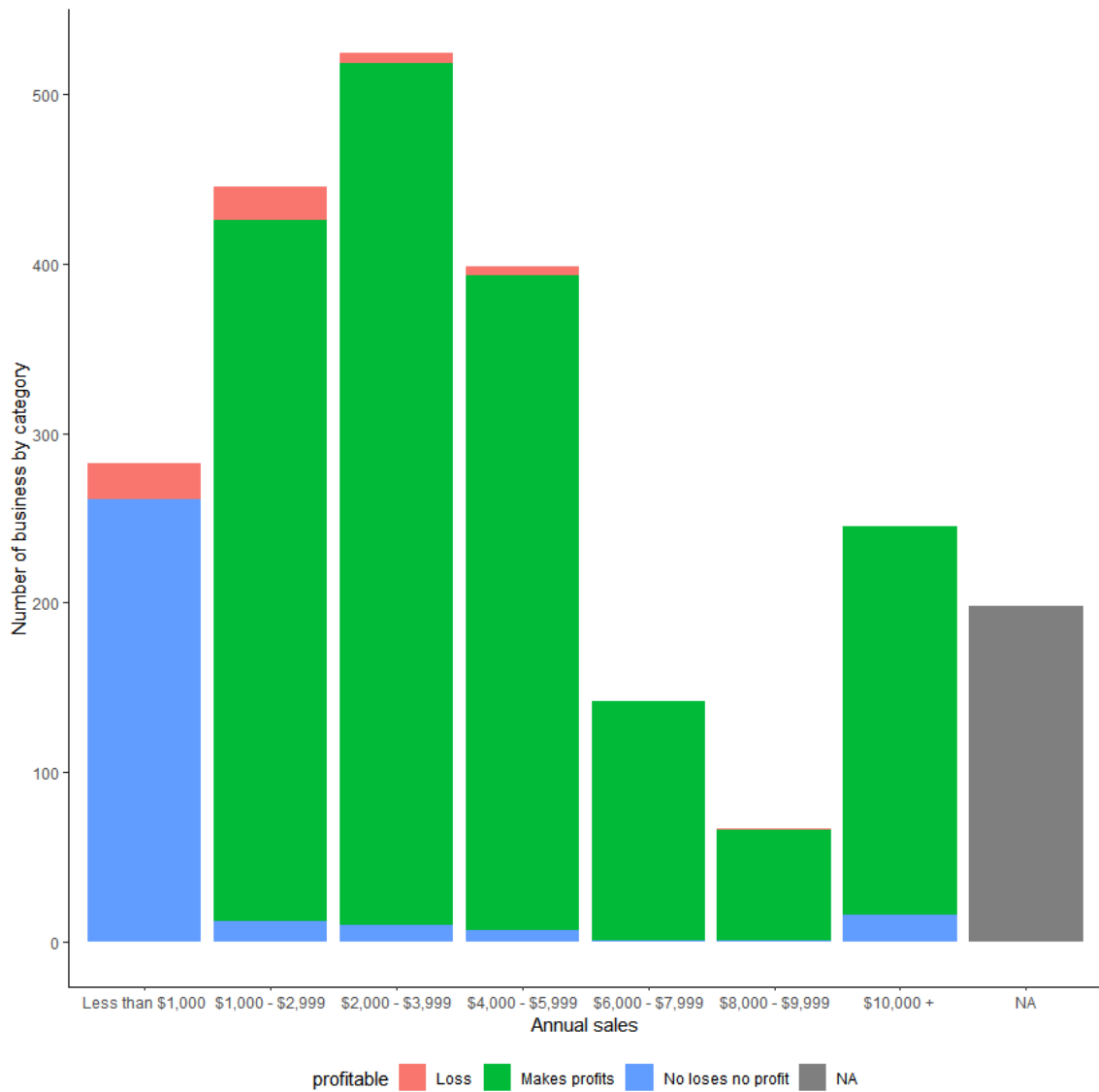


Table 7 shows that around half of the businesses use their savings to reinvest in their businesses. When asked about how often they make these investments, most of them declared they do so monthly or sporadically.

*Table 7: Saving and frequency investment back into the business*

Question	Category	Percent (% rows)	Frequency
Do you save some money to invest into your business?	Yes - 'lo	52	1206
	No - 'lkai	39	897
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
How often?	weekly	8	183
	fortnight	1	28
	monthly	16	362
	quarterly	5	116
	rarely	22	517
	NA's	48	1095
	<b>Total</b>	<b>100</b>	<b>2301</b>

Table 8 shows how many businesses keep records or reports of their activities and the kind of record used by them. Around 76% of businesses do not keep some sort of record. Among those that keep a record, receipts are the most common type, followed by informal recording and back statements.



*Table 8: Types of record or reports kept by the businesses. Responses to each type or record*

Question	Category	Percent (% rows)	Frequency
NONE	No	16	359
	Yes	76	1744
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
Invoices	No	90	2078
	Yes	1	25
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
Receipts	No	85	1958
	Yes	6	145
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
Cash flow statements	No	91	2100
	Yes	0	3
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
Bank statement	No	85	1965
	Yes	6	138
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
Informal recording	No	88	2023
	Yes	3	80
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>

## **8.5. Banks and financial institutions**

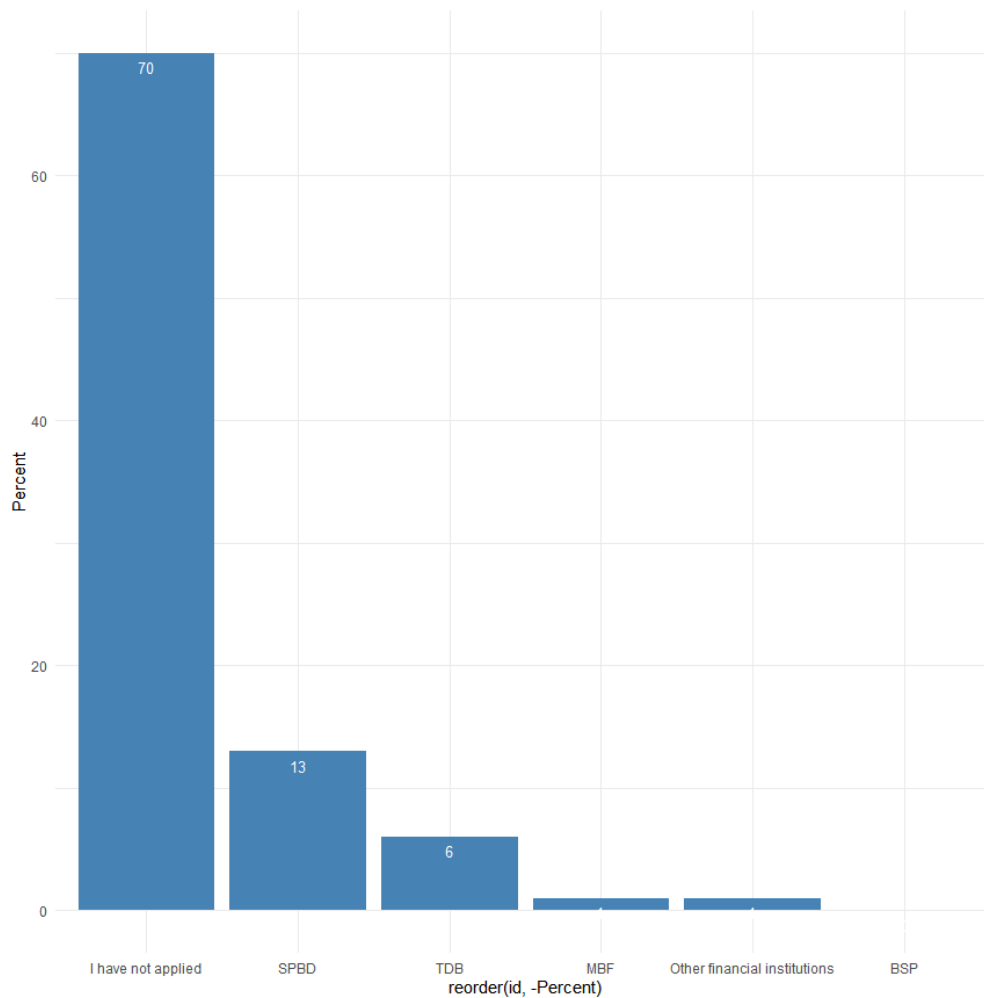
Most of the interviewees (69%) declared that they have a bank account they use for deposits and withdrawals for their businesses. Among those that use a bank account (n=1587), the vast majority use their personal or family account (83%).

*Table 9: Bank account for business and personal use of the bank account*

Question	Category	Percent (% rows)	Frequency
Do you have a bank account which you use for deposits and withdrawals of your business?	Yes - 'Io	69	1587
	No - 'Ikai	22	516
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
Is the bank account you use for business activity separate to your personal/family bank account?	Yes - Separate account for this activity	5	74
	Yes - Separate account but combine all activities in this account	12	198
	No - Use personal/family bank account	83	1315
	<b>Total *Use bank account*</b>	<b>100</b>	<b>1587</b>

The following figure (8) shows the percentage of people that declared using a bank or financial institution for acceding a loan. 70% said they did not use a bank or financial institution, 13% mentioned that they use SPBD and 6% use TDB. The rest of the options were barely mentioned by the interviewees.

Figure 8: Bank or financial institution used to make a loan to help with your business



Among those who have requested a loan (n=486), there is a great deal of variability in the value of the loan. Figure 9 shows by quantiles the distribution of the values of the loans. The average value in the first quantile was \$783, in the second \$1084, in the third \$2122, in the fourth \$4325 and in the fifth \$11,927. However, it is possible to find few businesses with loans of more than \$50,000.

Figure 9: Mean value of the requested loan by quintiles (n=486)

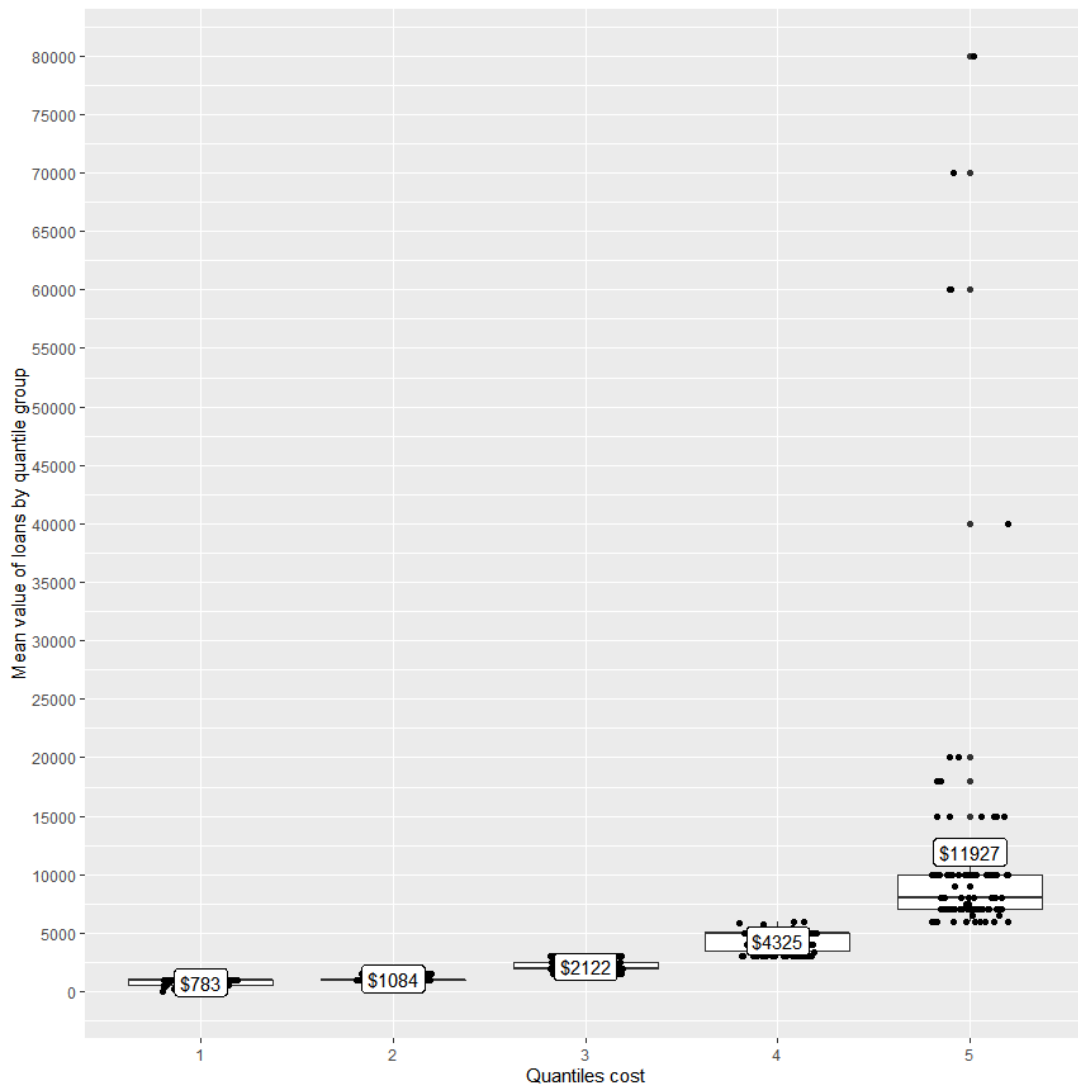
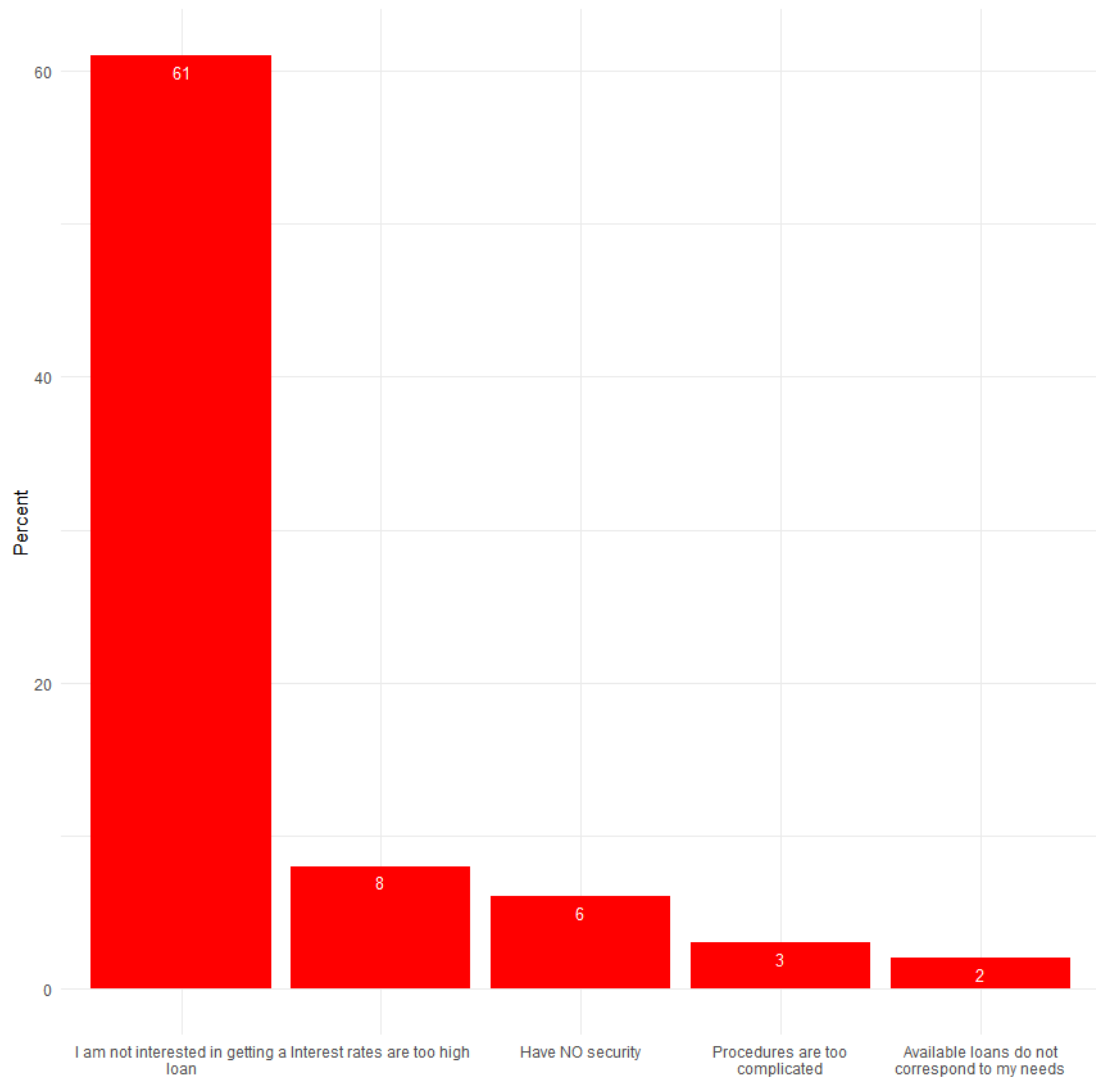


Figure 10 shows the distribution of reasons given for those who did not apply for a loan. More than 60% of businesses mentioned that they were not interested, 8% said that the interest rates were too high, and 6% declared that the available loans were not suitable for their needs. The other options were endorsed by very few people.

Figure 10: Reason as to why the Business did not or never applied for a loan to the bank or any other financial institution



### 8.6. Business for development support

Figure 11 displays the distribution of the type of consumers of the businesses in the sample. More than 80% of interviewees declared that they have local costumers, 35% declared that they export their products and very few endorsed the other options like religious groups, tourism, government and so forth.

Figure 11: Major customers of the business

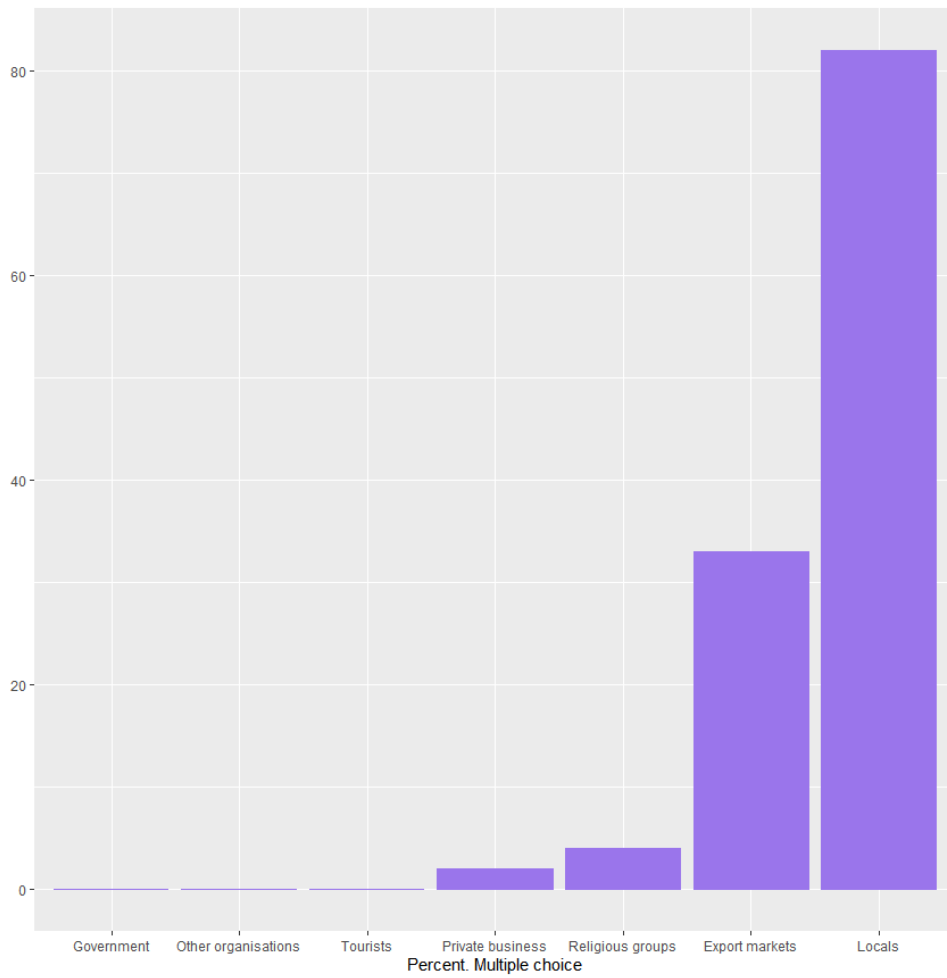
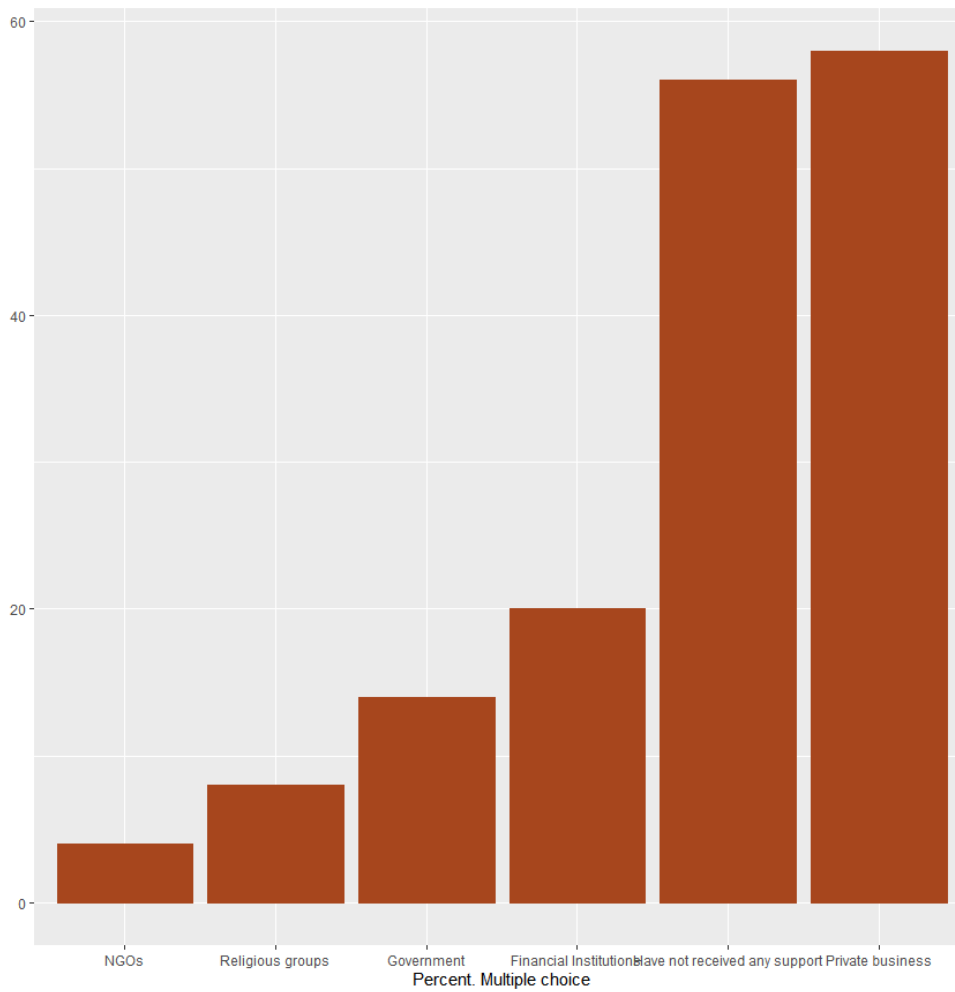


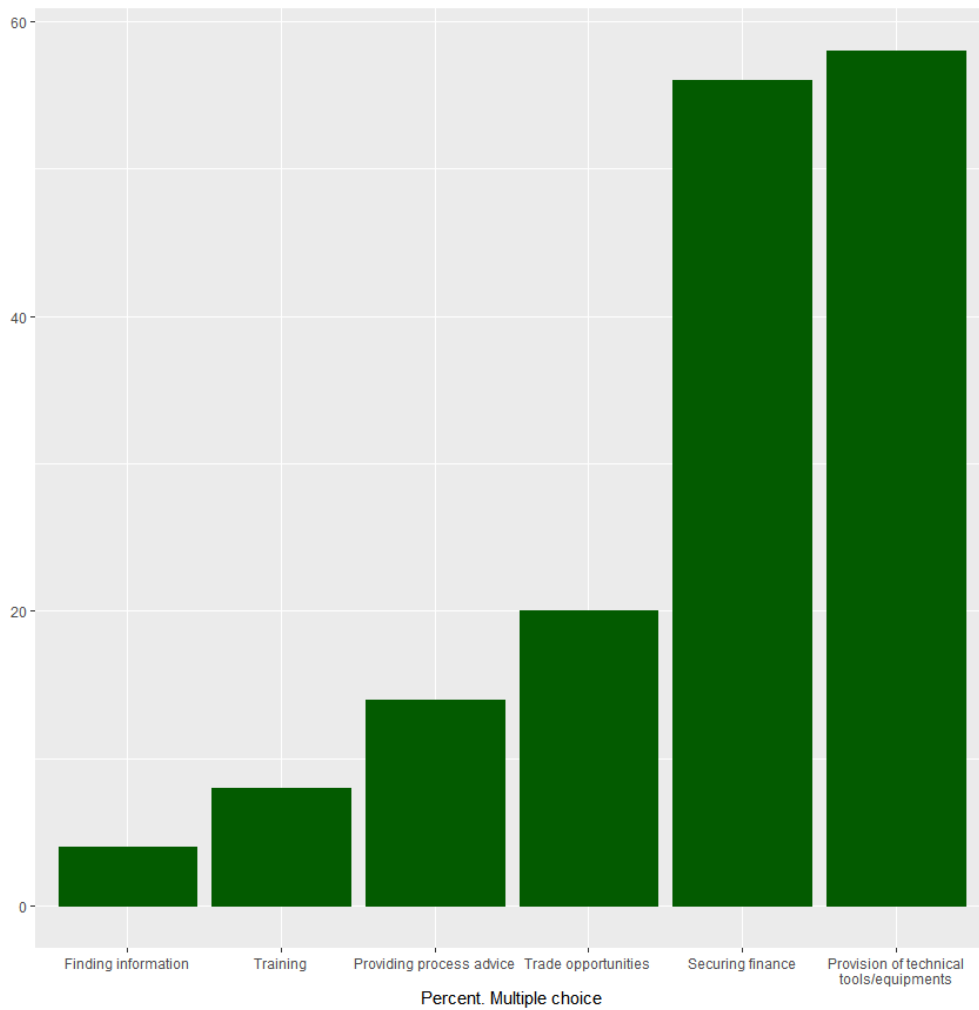
Figure 12 shows the main sources of support from a list of organisations. Private businesses and not receiving support from any organisation were the two most popular responses. One of every four declared receiving support from financial institutions and 15% from the government.

Figure 12: Any support received from the different organisations



When questioned about the type of support that would be of great assistance to their businesses, the respondents mentioned that provision of technical tools and advice in securing finance as the two main alternatives (Figure 13). Around 20% stated trading opportunities and the other options were endorsed by a small percentage of people.

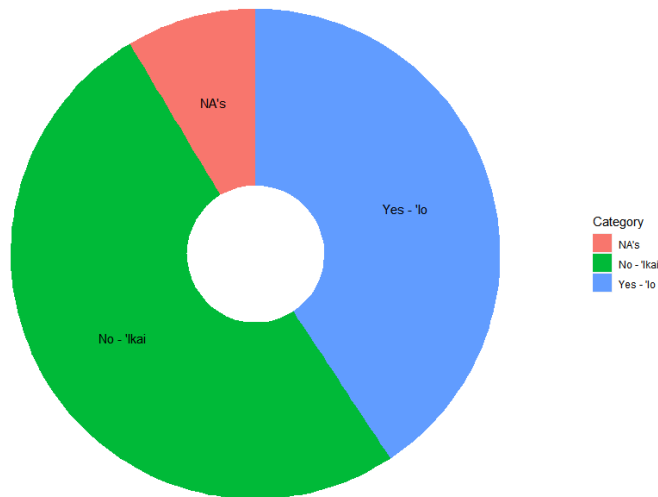
Figure 13: Type of support people think will be of great assistance



People were also asked about whether there were enough training programs provided by government to support business activity development. Almost half declared that there was not enough training, whereas around 40% mentioned that there was indeed sufficient training (Figure 14).



Figure 14: Thoughts on the sufficiency of training programs provided by government to aid business activity development



### 8.7. Problems and prospects

Figure (15) displays the respondent's opinion about the most common barriers for their businesses when operating. Insufficient funds, lack of resources, lack of information from the market and lack of opportunities for trade were the three most challenges. Competition from other providers and lack of workers were considered the two less problematic. Lack of skills, either financial or managerial were not regarded as too problematic.

Figure 15: Most common barriers faced by the business operations

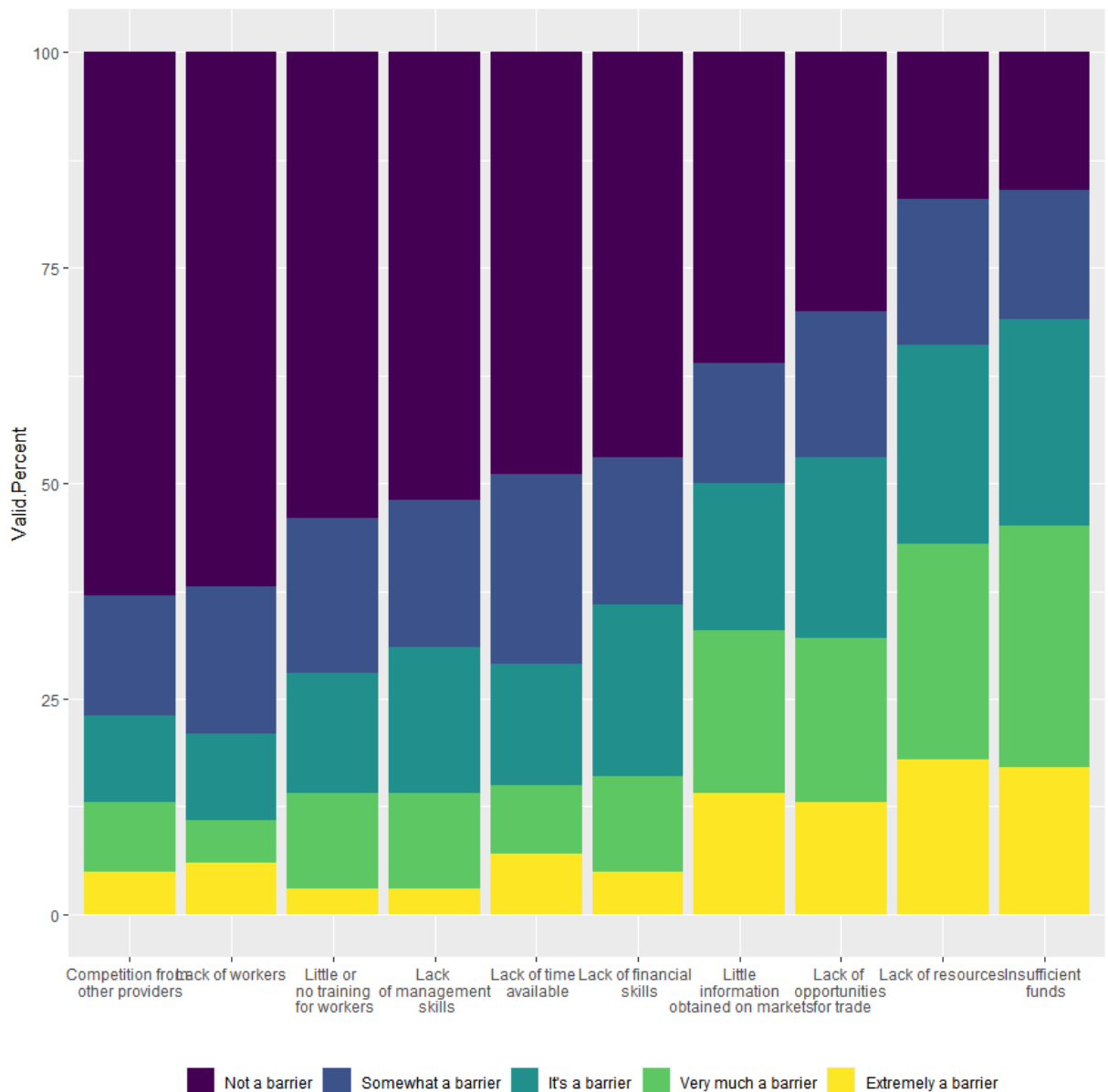
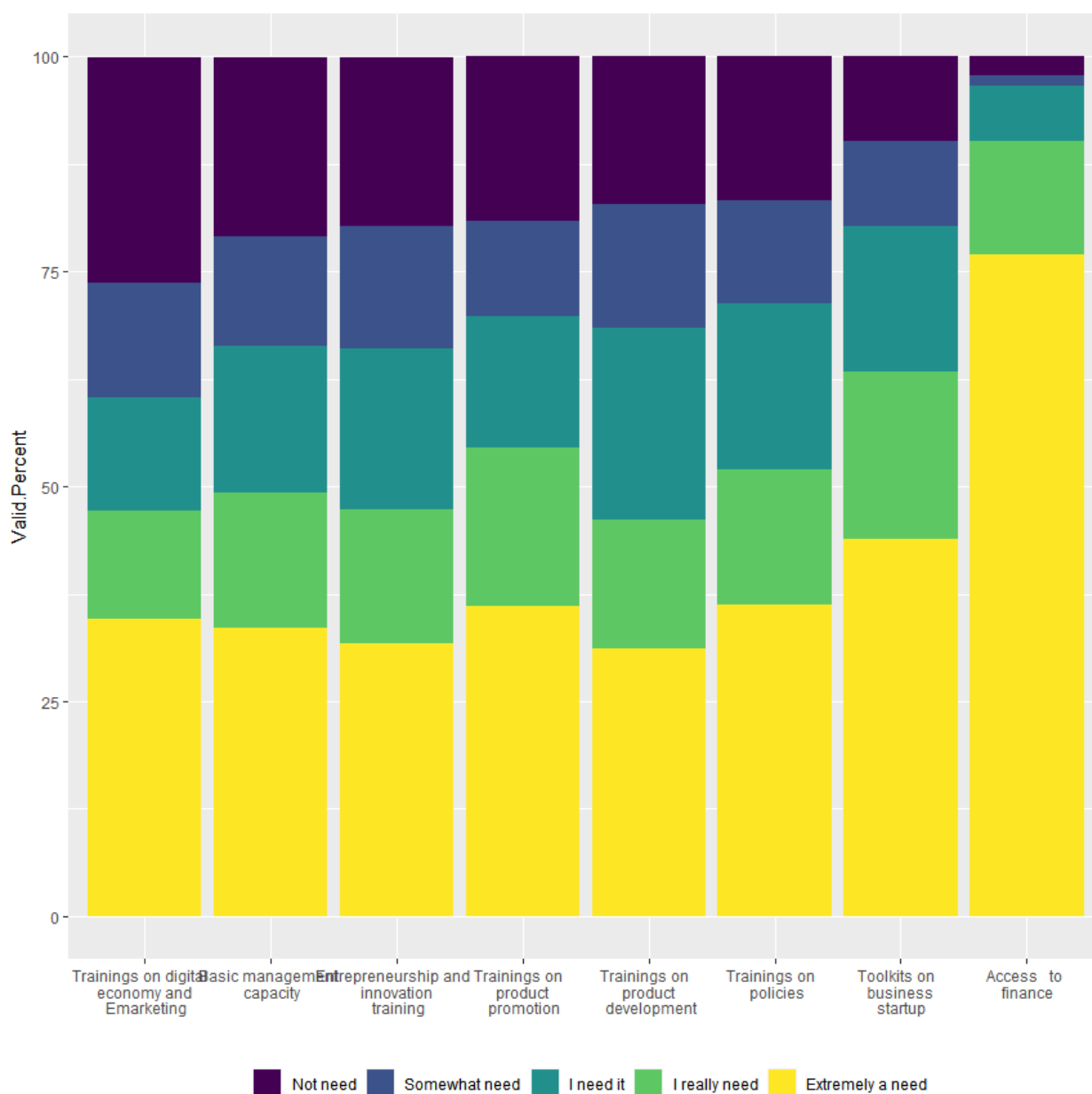


Figure 16 shows the type of business services that the interviewees considered their business needed the most. Access to finance was the most acute necessity—around 75% considered that there was an extreme need of it. The next one was access to toolkits on business start-up, followed by training on policies and on product promotion. Basic management capacity, entrepreneurship and innovation, and trainings on digital economy were not as widely acknowledged as needed by the respondents.

Figure 16: Business services needed



Very few interviewees knew about the possibility of receiving assistance by the Ministry of Trades and Economic Development (MTED). Only 9% declared that they were aware of this kind of assistance. Out of those who declared they were aware of the assistance (n=201), when asked about their thoughts on the assistance, the vast majority regarded the assistance as effective, very or extremely effective (Table 10).

Table 10: Awareness of MTED assistance

Question	Category	Percent (% rows)	Frequency
Are you aware of the Ministry of Trades and Economic Development (MTED) assistant programs to informal sector?	Yes - 'lo	9	201
	No - 'lkai	83	1902
	NA's	9	198
	<b>Total</b>	<b>100</b>	<b>2301</b>
What are your thoughts on Ministry of Trades and Economic Development (MTED) assistant programs to informal sector?	Not effective	6	13
	Somewhat effective	4	9
	Effective	34	68
	Very effective	35	70
	Extremely effective	20	41
	NA's	NA	2100
	<b>Total</b>	<b>100</b>	<b>2301</b>

## 8.8. COVID-19

As shown in Table 11, very few businesses had to lay off workers because of COVID-19. Only four businesses reported this circumstance. Around 30% of businesses reported that their sales dropped due to the COVID-19 pandemic, 9% estimated an increase and 36% reported that they remained the same despite the pandemic.

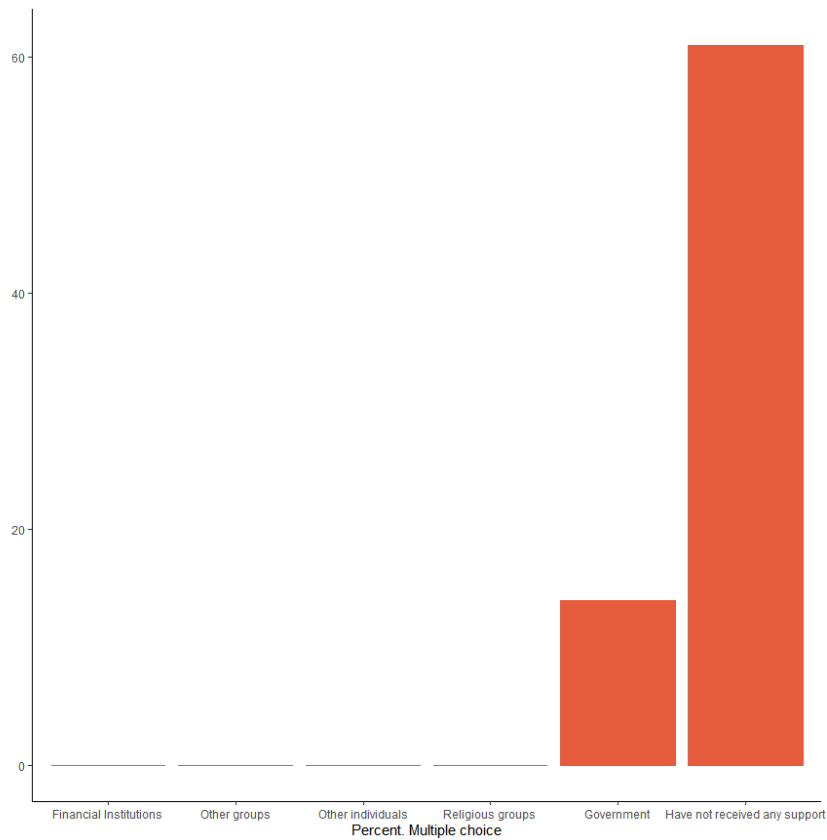
When asked about whether they had been able to save money for investment during the pandemic, 33% affirmed that they had some money to invest back in their business.

*Table 11: Exploration of COVID-19 implications for business*

Question	Category	Valid.Perc ent	Frequency
How many workers did you lay off in your business activity because of COVID-19?	0	100	1728
	1	0	1
	2	0	3
	4	0	1
	NA's	NA	568
	<b>Total</b>	<b>100</b>	<b>2301</b>
Did the total sales of your business:	Reduce given the impact of COVID-19	40	693
	Increase given the impact of COVID-19	12	203
	No Impact due to COVID-19	48	837
	NA's	NA	568
	<b>Total</b>	<b>100</b>	<b>2301</b>
Will you still save some money to invest back into your business	Yes - 'lo	44	758
	No - 'lkai	56	975
	NA's	NA	568
	<b>Total</b>	<b>100</b>	<b>2301</b>

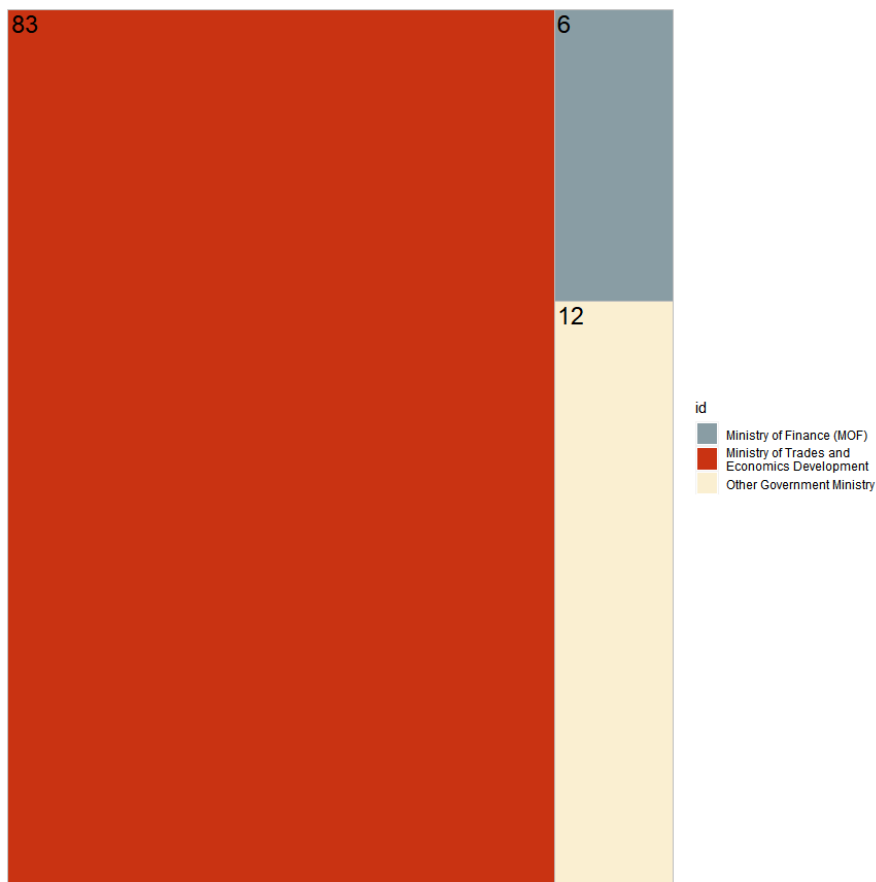
To the question “Have you received any support from the following organisations for COVID-19 for your business?”, 60% mentioned that they had not received any support during the pandemic. Around 15% mentioned that they had not received support from government. There was no evidence that businesses had received support by other kinds of institutions.

Figure 17: Support received from different organisations for COVID-19



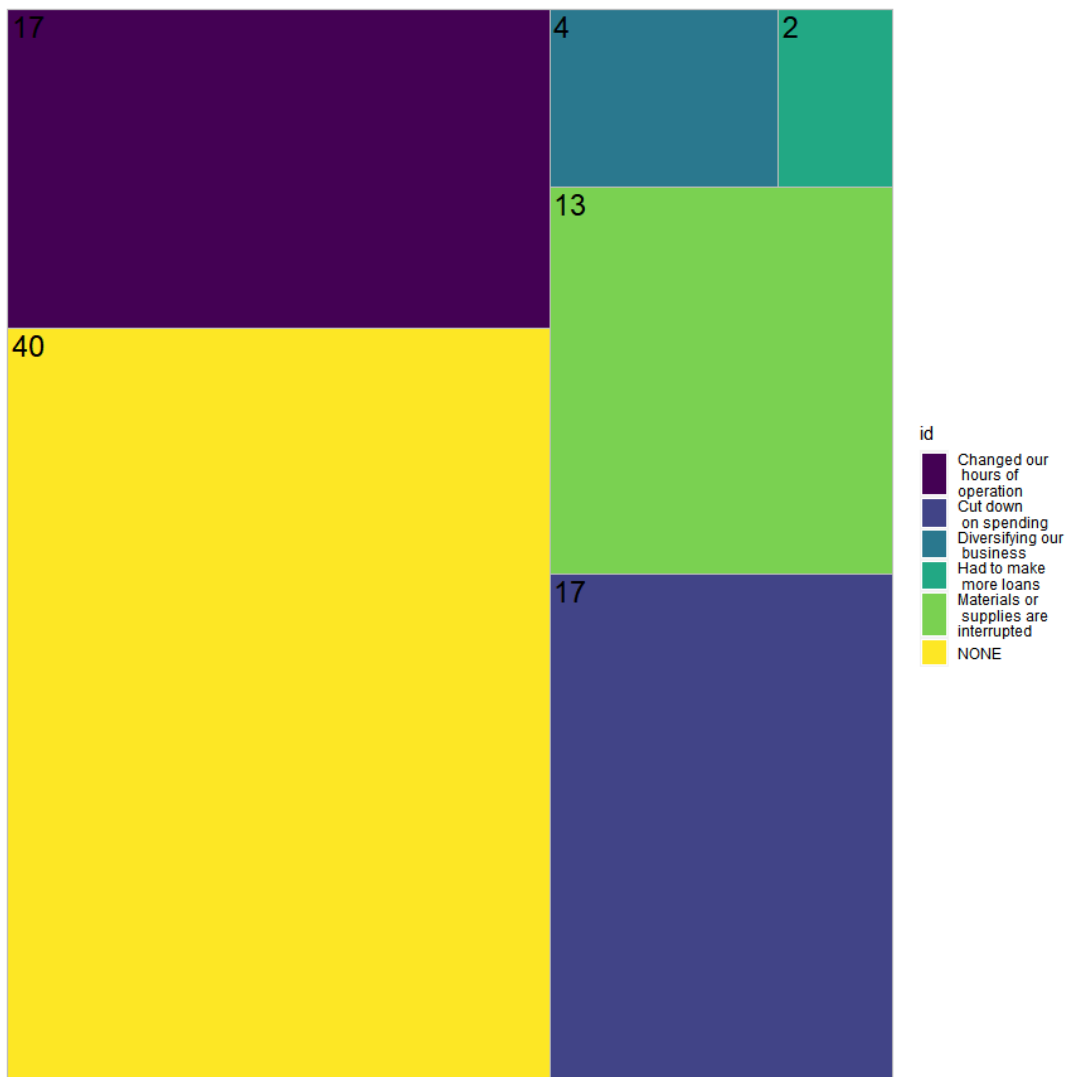
Among those that declared receiving government support (n=321), more than 80% declared receiving it from the Ministry of Trade and Economic Development, the rest declared that the support came from either the Ministry of Finance or another government Ministry (Figure 18).

Figure 18: Name Government support n=321



When asked about the changes happening to their business due to COVID-19, 40% of the respondents said that they had not faced any changes. Among those who reported changes, cuts to their spending, changes to the operating hours and interruption in the supply of materials were the main reported modifications (Figure 19).

Figure 19: Changes happening to the business activity because of Covid-19



The participants were also asked about the expected impact of the COVID-19 pandemic. One out of every ten businesses expected that the impact would be high, 26% said that the impact would be medium and 38% said that they would survive. Among those that mentioned that they would face an impact, 55% mentioned that they had a plan if COVID-19 reaches Tonga and 20% did not have a plan.

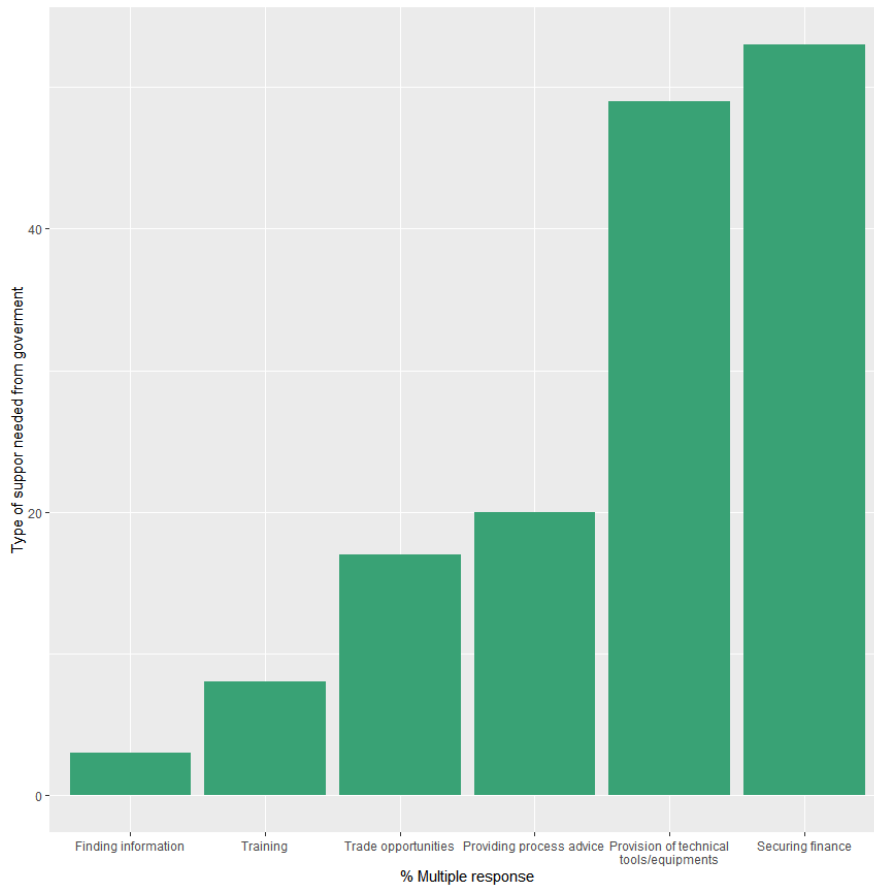


*Table 12: Expected impact of the COVID-19 pandemic and plans to face the challenges*

Question	Category	Percent (% rows)	Frequency
How will COVID-19 impact the future of your business?	High (may put us out of business)	11	252
	Medium (will impact our business)	26	605
	Low (we can survive)	38	869
	Additional comments	0	7
	NA's	25	568
	<b>Total</b>	<b>100</b>	<b>2301</b>
Do you have a plan if COVID-19 reach Tonga?	Yes - 'lo	55	1263
	No - 'lkai	20	470
	NA's	25	568
	<b>Total</b>	<b>100</b>	<b>2301</b>

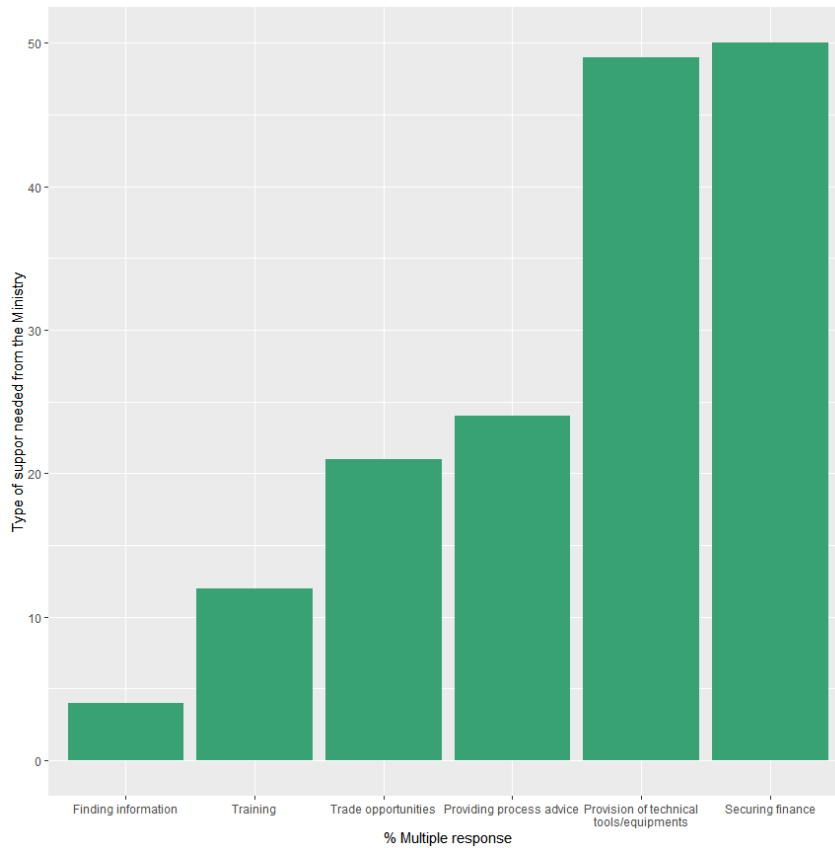
Participants were asked about type of support they needed for their business from government regarding COVID-19. The majority mentioned that securing finance was the most needed support. The second option was the provision of technical tools and equipment. Trade opportunities and advice were the next to most popular options.

Figure 20: Type of support needed for the business from government regarding COVID-19



To the question “What type of support do you need for your business from the Ministry regarding COVID-19?”, respondents had similar responses to the previous question: securing finance and provision of tools and equipment were the most popular.

Figure 21: Type of support needed for the business from the Ministry regarding COVID-19



## 8.9. Analysis by gender

Figure 22 shows the total number of businesses by type of activity and sex. Out of the 2301 businesses, 1393 (56%) are operated by women. When looking at the most common activities, around 95% of root crops and Kava businesses are run by men, in contrast Mats, Ta’ovala and Tapa businesses are almost entirely run by women.

Figure 22: Total number of businesses by type and sex of the main responsible



Figure 23 shows the response percentages by sex of the main responsible to the questions about purpose, length of operations and collaborations of businesses. Female-headed businesses tend to be more oriented for only-sales purposes compared with males' businesses. In contrast male-headed businesses are more focused on home consumption. There are no differences by gender in terms of length of operating. Females tend to work more with groups while men with cooperatives.

Figure 23: Purpose, length of operations and collaborations of businesses by sex of the main responsible

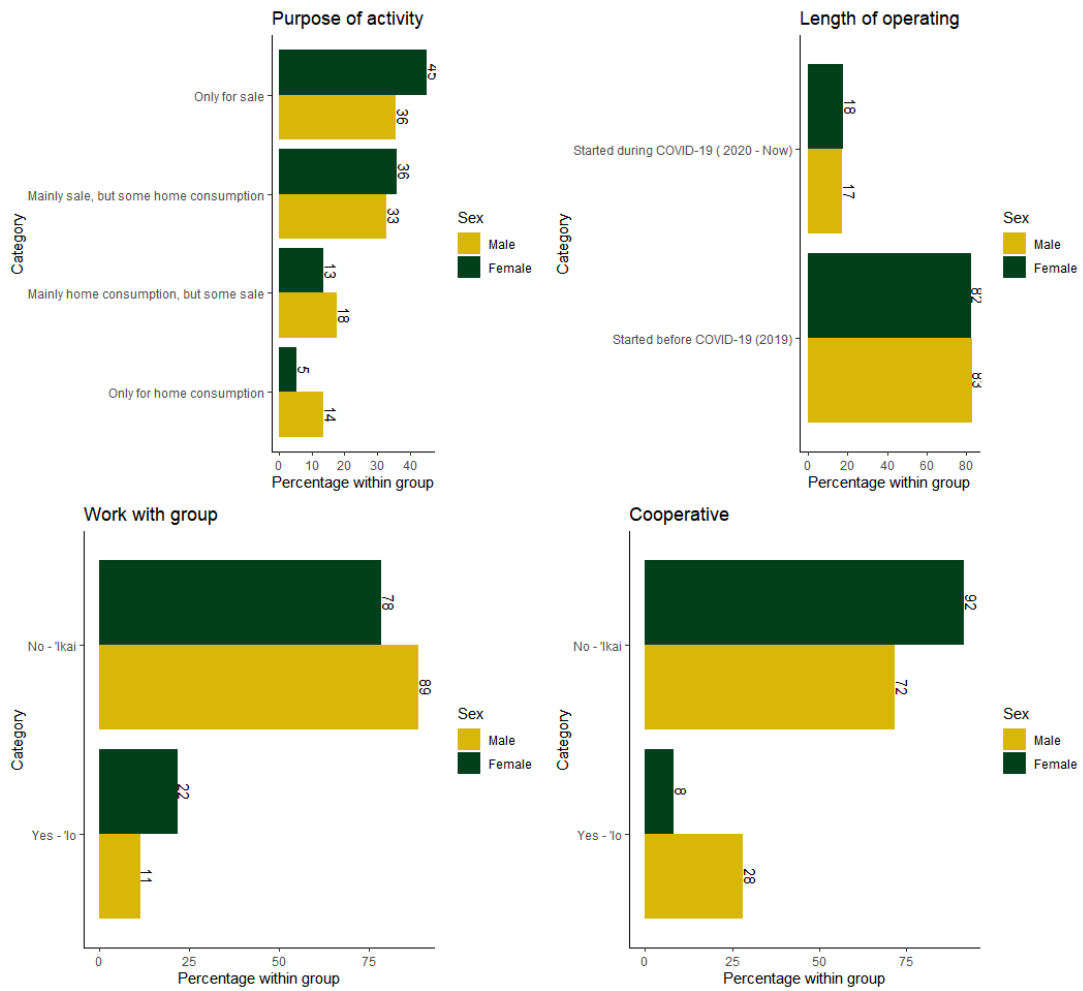
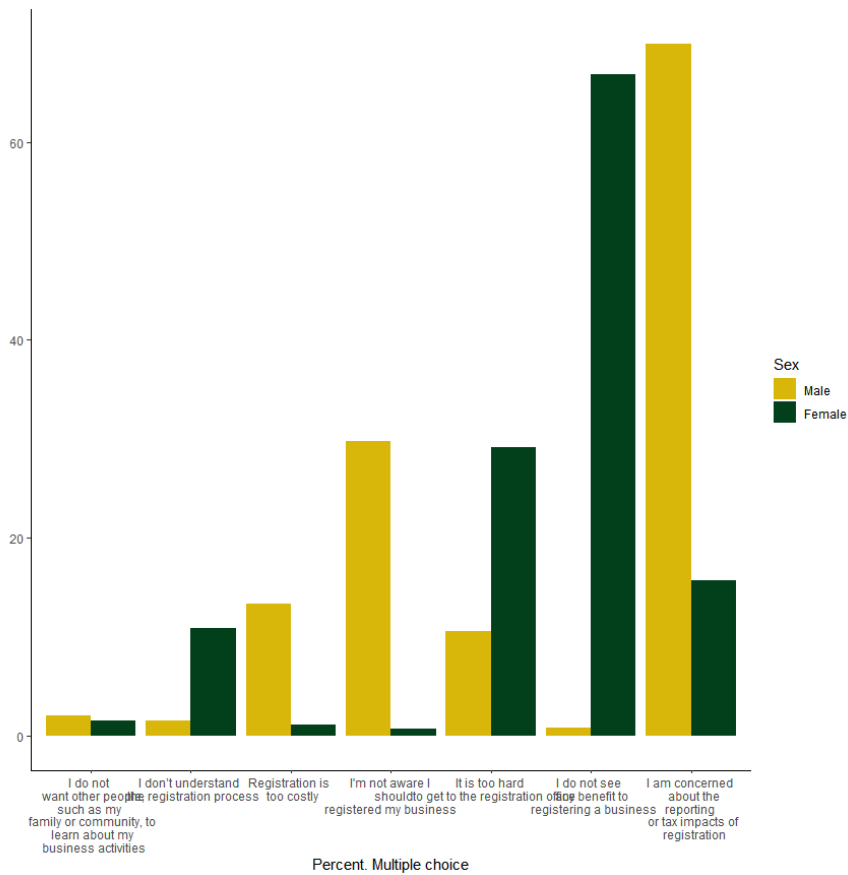


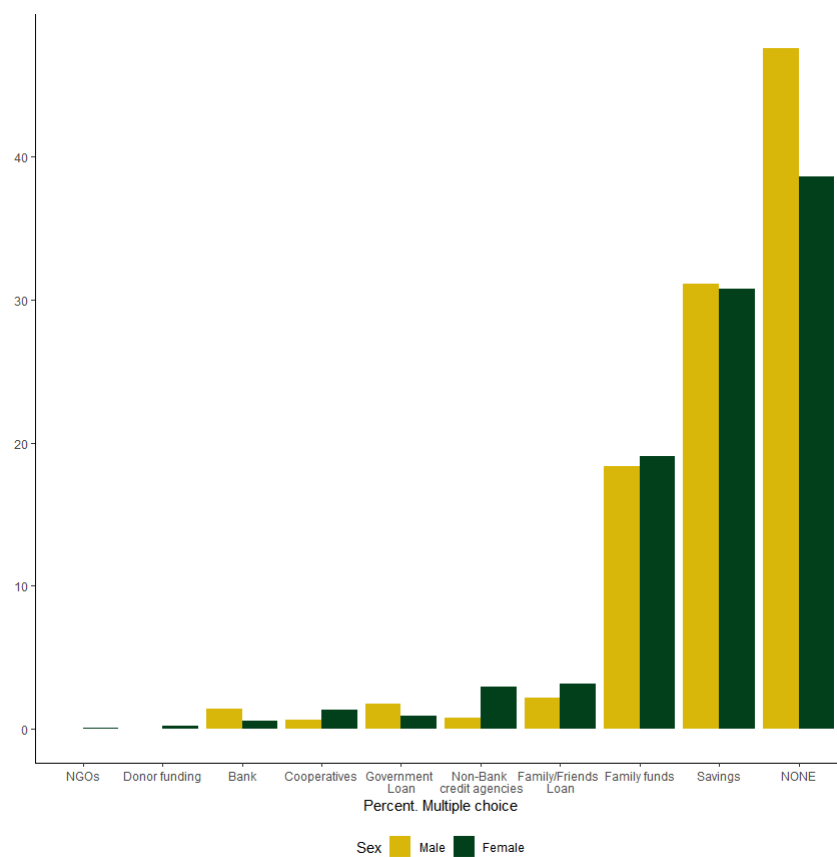
Figure 24 shows the distributions of the reasons given for no registration by sex of the main responsible. The reasons are quite different between men and women. Whereas males mainly did not register their business due to taxes' concerns and lack of knowledge, women did not see a major reason to do so.

Figure 24: Reasons for no registration of business by sex of the main responsible



There are no major differences in terms of the sources of funding for starting the business by sex. The response patterns are very similar between males and females (Figure 25). The only difference is that Males are more likely to conduct their businesses without any type of funding relative to females.

Figure 25: Reasons for no registration of business by sex of the main responsible



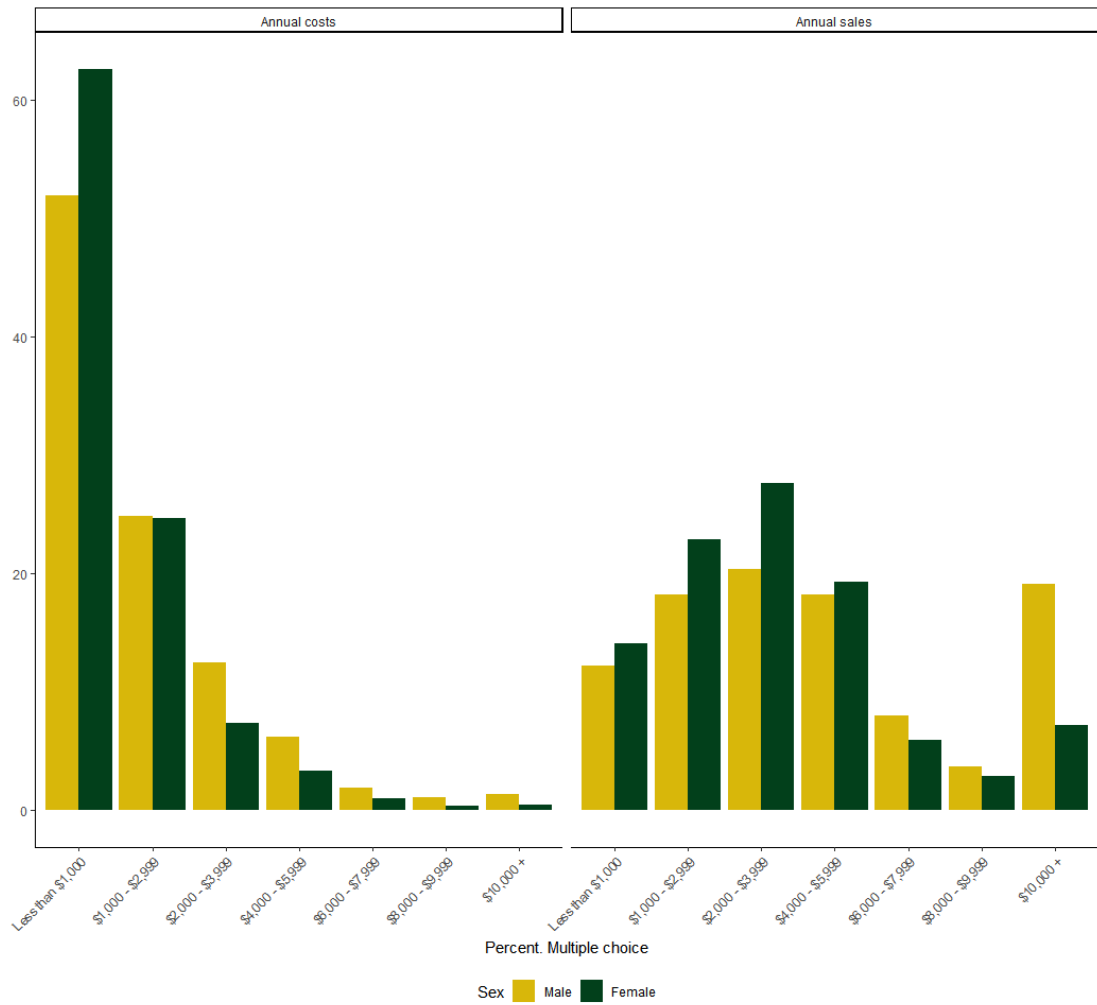
*Table 13: Business in need of equipment by sex of the main responsible*

Need.Equipm ent	Sex	Freq
Yes - 'lo	Male	67.85
No - 'lkai	Male	32.14
Yes - 'lo	Female	85.21
No - 'lkai	Female	14.78

Female-headed businesses have lower costs than males' businesses. It seems that mid and small-profitable businesses are more common across women than among men. Highly profitable businesses are much more prevalent among men than women.



Figure 26: Purpose, length of operations and collaborations of businesses by sex of the main responsible



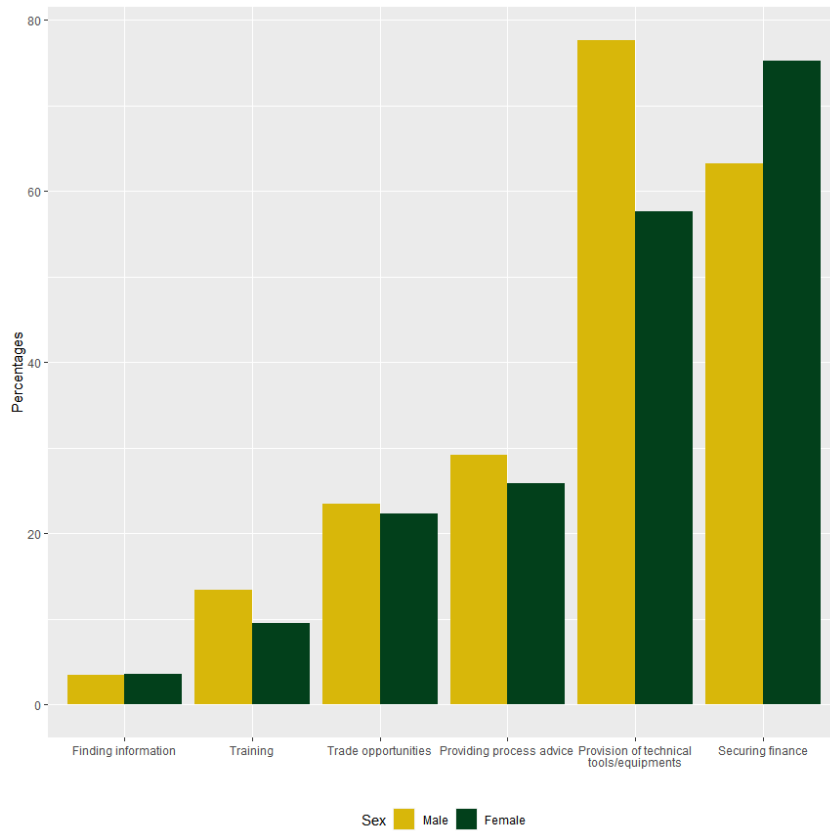
Women are more likely than men to see all these issues very much as a barrier. Across all questions, it is very clear that men see less concerned about the different aspects of the operation of their businesses.

Figure 27: Most common barriers faced by the business when operating by sex



Men believe that the provision of tools and equipment is the greatest kind of support they need. Women noted that financial support is their most important need, however, these two types of support are the most prevalent among the two groups.

Figure 28: Type of support needed for your business from government as a whole regarding COVID-19



## 9. Conclusion & recommendations

This report provides an overview of informal businesses in Tonga based on data from the survey [n=2,301]. In accordance to the data collected, majority of informal economic activities focus on agricultural production and small-scale hand-made manufactures. The local market is the most important for the businesses, although there are some that export their goods overseas. There are marked differences in the profile of the businesses depending on the gender of the main person responsible for the business. Male-headed businesses are oriented towards agricultural activities whereas female-headed businesses focus on small-scale manufactures. Furthermore, for females, due to the nature of the goods they produce, these tend to be more market oriented rather than local home consumption. However, highly profitable businesses are more prevalent among males.

The informal businesses in Tonga mostly did not require institutionalised funding for starting-up of their activities – most relied on personal savings or funding. In terms of their insertion to the regulated market in Tonga, the majority declared that they were not aware that they needed to register their business.

It was rare to find businesses with more than one employee. Where the employee was required, their enrolment was casual and would earn less than \$200 a month and/or paid in-kind. For the type of activities performed by some businesses, they had the necessary equipment to perform their activities. However, those who lacked equipment were in this situation due to affordability.

The informal businesses in Tonga are unlikely to have losses, the vast majority indicated more sales than costs. However, the businesses that are more likely to have losses are those who have very few sales. Those who declared sales of less than \$1,000 were more likely to have higher costs than sales.

Businesses would benefit the most from provision of technical tools and securing finance but very few know that there are options available in Tonga- only 9% know that there is assistance available from MTED. Insufficient funding and lack of opportunities for trade are the main challenges faced by businesses.

The effects of the COVID-19 pandemic are mixed. 45% declared that they did not have any adverse impacts or increased sales. On the other hand, 30% mentioned a reduction in their sales. 60% declared that they had not received support during the global pandemic. Among those receiving support, 83% declared that they did not receive any support from the Ministry of Finance.

### **Recommendations**

Based on the results of the survey, the following actions are recommended for implementation to support the Informal Sector in Tonga.

### **Financing Programmes**

The respondents recognised the difference it would make if businesses had access to financial assistance. As most were not keen on loan schemes, it would be useful for MTED to consider developing friendly financial schemes to strengthen the smaller players and businesses in the Informal Sector.

### **Improved Communication**

From the Survey, most of the businesses were not aware of the support programmes offered by MTED and the Government of Tonga. Should a financial scheme be set-up for businesses in the Informal Sector, it is important that MTED implement a clear communication programme utilising the media through newspaper advertisements and articles, radio and TV programmes in addition to website notices and programmes using social media platforms to ensure a wide coverage throughout Tonga. It is important that guidance is offered on how to apply for the funding scheme which will enhance the awareness of any new initiatives made available by MTED.

### **Equipment Support**

The Survey noted the need to support businesses with limited access to equipment for the overall development of their Businesses. MTED could assist businesses develop a financial plan to enable businesses to procure tools and equipment that are required for sustainable growth of their businesses through installments to relieve the burden on their cashflow and finances of the business.

## **Opportunities for women**

Women operating businesses were less profitable than businesses operated by men. The need for assistance with marketing of their products overseas and locally by the MTED was identified. It would be useful to improve the scope of the communication of current programmes, so that women become more familiar with the available schemes.

It would be important to consider a scheme specifically providing technical support for women in the Informal Sector. From providing technical guidance and advice on business registration processes to accessing financial assistance through schemes set up by the MTED. Access to overseas Markets would be key for women in the informal sector hence programmes and initiatives targeting this could be shared by the Trade Division of MTED with the women in the Informal Sector. It would be useful if the women are guided through the steps of transitioning into the formal sector with assistance from the Business Advisory Unit of MTED.

## **Technical Assistance**

The Government of Tonga through the Ministry could collaborate and work together with development partners to strengthen support for new opportunities in the Informal Sector. Developing schemes to assist the businesses through donor agency funding and allowing incentives for small businesses to grow from strength to strength therefore, providing new and creative initiatives for women and small businesses to take on board, especially to eventually boost the economic activities of the Informal Sector.

Surveying informal businesses is a very challenging task given there is no sampling framework. A census of informal businesses outlining the number of businesses is likely to fluctuate a lot, its main activities is difficult to define and its characteristics may also vary a lot during a given year. Future surveys should consider these aspects to improve the generalisation of the findings.

## 10. Appendices

Type of businesses by island group.

*Table 14: Frequency of the main activity of business. Tongatapu*

Id.in.ros_activity	Island	Freq
Root crops (ngoue foha - talo, 'ufi, manioke, etc)	Tongatapu	235
Tapa (Ngatu feta'aki, Ngatu pepa)	Tongatapu	201
Ta'ovala ta'ovala (Lokeha, ta'ovala putu, ngafingafi, filo)	Tongatapu	155
Mats (Fala, lotaha, papa, kie, pati)	Tongatapu	144
Imported products (fea vala, food products, tools, cosmetics products, etc)	Tongatapu	113
Ta'ovala kiekie (Kiekie nge'esi niu, fau, fanakio, filo)	Tongatapu	77
Pigs farming	Tongatapu	54
Other Handicrafts	Tongatapu	49
Agriculture Products	Tongatapu	31
Local Tailoring	Tongatapu	30
Net fishing (Kupenga mamaha, kupenga loloto, sili)	Tongatapu	29
Canteen	Tongatapu	27
Roadside food stall	Tongatapu	27
Reef fishing (Fangota, ama taa, moe kaloa'a, limu, kolukalu, etc)	Tongatapu	25
Horticultural (Meleni, hina, vesitapolo, faina)	Tongatapu	24
Other market stalls services	Tongatapu	24
Other Agriculture	Tongatapu	23
Baking	Tongatapu	20
Local household products (taufale, fala, lolo, etc)	Tongatapu	19
Other fishing	Tongatapu	16
Other services	Tongatapu	16
Repair Services	Tongatapu	12
Floriculture (Ngoue matala'i 'akau, ngoue teuteu)	Tongatapu	9
Carpenter	Tongatapu	9
Labour for hire	Tongatapu	7
Others	Tongatapu	7
Cattle farming	Tongatapu	6
Ngoue Kava	Tongatapu	5
Repair works for machines	Tongatapu	5
Wood Carving (Tiki)	Tongatapu	4
Deep water fishing (Tau palu)	Tongatapu	4
Fish fence (Paa ika)	Tongatapu	4
Paintings	Tongatapu	4
Fruits (Coconuts, 'Avoka, moli, etc)	Tongatapu	3
Ngoue Vanilla	Tongatapu	3
Troll fishing (fakatele)	Tongatapu	3
Poultry farming	Tongatapu	3
Pearl Jewerries (Tofe)	Tongatapu	2
Shell Jewerries (Nge'esi fingota)	Tongatapu	2
Caterings	Tongatapu	2

Id.in.ros_activity	Island	Freq
Sewing	Tongatapu	2
Cleaning	Tongatapu	2
Bone Jewelries (Hui)	Tongatapu	1
Restaurant	Tongatapu	1
Other food services	Tongatapu	1
Distance Tailoring	Tongatapu	1
Fisheries products	Tongatapu	1
Tour guides	Tongatapu	1
Landscaping	Tongatapu	1



Table 15: Frequency of the main activity of business. Vava'u

Id.in.ros_activity	Island	Freq
Ngoue Kava	Vava'u	109
Mats (Fala, lotaha, papa, kie, pati)	Vava'u	83
Ta'ovala ta'ovala (Lokeha,ta'ovala putu, ngafingafi,filo)	Vava'u	33
Root crops (ngoue foha - talo, 'ufi, manioke,etc)	Vava'u	24
Canteen	Vava'u	9
Deep water fishing (Tau palu)	Vava'u	8
Net fishing (Kupenga mamaha, kupenga loloto, sili)	Vava'u	8
Ta'ovala kiekie (Kiekie nge'esi niu, fau, fanakio, filo)	Vava'u	7
Reef fishing (Fangota, ama taa, moe kaloa'a, limu, kolukalu, etc)	Vava'u	5
Pigs farming	Vava'u	4
Local household products (taufale, fala, lolo, etc)	Vava'u	4
Fruits (Coconuts, 'Avoka, moli, etc)	Vava'u	3
Ngoue Vanilla	Vava'u	3
Baking	Vava'u	3
Roadside food stall	Vava'u	3
Local Tailoring	Vava'u	3
Imported products (fea vala, food products, tools, cosmetics products, etc)	Vava'u	3
Horticultural (Meleni, hina, vesitapolo, faina)	Vava'u	2
Other Handicrafts	Vava'u	2
Cattle farming	Vava'u	2
Floriculture (Ngoue matala'i 'akau, ngoue teuteu)	Vava'u	1
Troll fishing (fakatele)	Vava'u	1
Caterings	Vava'u	1
Other market stalls services	Vava'u	1
Paintings	Vava'u	1
Others	Vava'u	1

*Table 16: Frequency of the main activity of business. Ha'apai*

Id.in.ros_activity	Island	Freq
Root crops (ngoue foha - talo, 'ufi, manioke, etc)	Ha'apai	98
Mats (Fala, lotaha, papa, kie, pati)	Ha'apai	95
Ta'ovala ta'ovala (Lokeha, ta'ovala putu, ngafingafi, filo)	Ha'apai	53
Ta'ovala kiekie (Kiekie nge'esi niu, fau, fanakio, filo)	Ha'apai	26
Other Agriculture	Ha'apai	23
Reef fishing (Fangota, ama taa, moe kaloa'a, limu, kolukalu, etc)	Ha'apai	19
Horticultural (Meleni, hina, vesitapolo, faina)	Ha'apai	17
Other fishing	Ha'apai	11
Troll fishing (fakatele)	Ha'apai	9
Net fishing (Kupenga mamaha, kupenga loloto, sili)	Ha'apai	6
Canteen	Ha'apai	6
Other Handicrafts	Ha'apai	4
Sewing	Ha'apai	4
Repair Services	Ha'apai	3
Floriculture (Ngoue matala'i 'akau, ngoue teuteu)	Ha'apai	2
Ngoue Kava	Ha'apai	2
Long line (toutai valu)	Ha'apai	2
Baking	Ha'apai	2
Roadside food stall	Ha'apai	2
Cattle farming	Ha'apai	2
Pigs farming	Ha'apai	2
Carpenter	Ha'apai	2
Fruits (Coconuts, 'Avoka, moli, etc)	Ha'apai	1
Caterings	Ha'apai	1
Other food services	Ha'apai	1
Imported products (fea vala, food products, tools, cosmetics products, etc)	Ha'apai	1
Local household products (taufale, fala, lolo, etc)	Ha'apai	1

Table 17: Frequency of the main activity of business. 'Eua

Id.in.ros_activity	Island	Freq
Ngoue Kava	'Eua	38
Root crops (ngoue foha - talo, 'ufi, manioke,etc)	'Eua	29
Ta'ovala kiekie (Kiekie nge'esi niu, fau, fanakio, filo)	'Eua	19
Mats (Fala, lotaha, papa, kie, pati)	'Eua	12
Ta'ovala ta'ovala (Lokeha,ta'ovala putu, ngafingafi,filo)	'Eua	10
Tapa (Ngatu feta'aki, Ngatu pepa)	'Eua	9
Other Handicrafts	'Eua	5
Ngoue Vanilla	'Eua	3
Canteen	'Eua	3
Local Tailoring	'Eua	2
Other Agriculture	'Eua	1
Long line (toutai valu)	'Eua	1
Baking	'Eua	1
Imported products (fea vala, food products, tools, cosmetics products, etc)	'Eua	1

## 10.1. Type of assistance required: Securing finance by business

Type of activity	% telling securing finance
Pearl Jewelries (Tofe)	100
Shell Jewelries (Nge'esi fingota)	100
Long line (toutai valu)	100
Troll fishing (fakatele)	100
Fish fence (Paa ika)	100
Restaurant	100
Other food services	100
Distance Tailoring	100
Tour guides	100
Cleaning	100
Roadside food stall	84
Labour for hire	83
Deep water fishing (Tau palu)	80
Ngoue Vanilla	78
Mats (Fala, lotaha, papa, kie, pati)	78
Ta'ovala kiekie (Kiekie nge'esi niu, fau, fanakio, filo)	78
Canteen	76
Ngoue Kava	75

Wood Carving (Tiki)	75
Caterings	75
Ta'ovala ta'ovala (Lokeha,ta'ovala putu, ngafingafi,filo)	74
Other services	73
Others	71
Local household products (taufale, fala, lolo, etc)	71
Imported products (fea vala, food products, tools, cosmetics products, etc)	68
Other market stalls services	68
Reef fishing (Fangota, ama taa, moe kaloa'a, limu, kolukalu, etc)	68
Local Tailoring	68
Poultry farming	67
Sewing	67
Other Agriculture	64
Agriculture Products	64
Baking	64
Tapa (Ngatu feta'aki, Ngatu pepa)	62
Carpenter	60
Other Handicrafts	57
Horticultural (Meleni, hina, vesitapolo, faina)	56
Root crops (ngoue foha - talo, 'ufi, manioke,etc)	56
Pigs farming	49
Fruits (Coconuts, 'Avoka, moli, etc)	40
Net fishing (Kupenga mamaha, kupenga loloto, sili)	40
Paintings	40
Repair Services	38
Floriculture (Ngoue matala'i 'akau, ngoue teuteu)	38
Cattle farming	38
Other fishing	37
Repair works for machines	20
Bone Jewelries (Hui)	0
Fisheries products	0
Landscaping	0

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