

# **Agglomeration Effects of Informal Sector: Evidence from Cambodia<sup>†</sup>**

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## **Abstract:**

The large presence of informal sector in developing economies poses a question whether informal activity produces agglomeration externality. This paper uses the economic census in Cambodia to estimate an impact of informal agglomeration on regional economic performance of formal and informal firms. We develop a Bayesian approach for a spatial autoregressive model with an endogenous explanatory variable to address endogeneity and spatial dependence. We find a significantly positive effect of informal agglomeration, where informal firms gain more strongly than formal firms. Calculating spatial marginal effects of increased agglomeration, we demonstrate that more accessible regions are more likely than less accessible regions to benefit strongly from informal agglomeration.

**Keywords:** Agglomeration, Informal Sector, Cambodia, Bayesian.

**JEL classification:** C11, C21, C26, H26, O17, R12,

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