

Informal Sector in South Asia: A Case Study of Bangladesh

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Abstract: Informal sector becomes the influential economic activities in Bangladesh in considering the contribution to the GDP and labor market over decades. Research show that 87.71% of the workers in Bangladesh are under informal employment. The highest concentration of informal workers is found in the rural areas (92%). Workers engaged in informal employment are mostly in agriculture; hunting and forestry; wholesale and retail trade; manufacturing; and transport, storage, and communications sectors. Women (91.3%) are most likely to be engaged in informal employment than men (86.6%); and women are generally unpaid family workers and in the private household sector. Workers under formal employment are paid better than those under informal arrangements. For each sector, wage differentials between formal and informal workers are significant. Informal workers are found to have significantly less benefits than those with formal employment, except for free meals and free lodging. In particular, self-employed and unpaid workers comprise a little over 20 million of informal workers, although less than 2 million of them enjoy benefits.

The purpose of this paper is to find out the problems of Informal Sector in Bangladesh and to identify the future aspect of Informal sector for the economic growth of the country.

Keywords: influential economic activities, GDP, Informal sector.

1. INTRODUCTION

Even though there has been significant poverty reduction in Asia, the 2008 International Labor Organization (ILO) Employment Trends indirectly estimated, using modeling Techniques and available survey data from countries, some 487 million workers, 300 Millions of whom live in Asia, who do not earn enough to lift themselves and their families above the US\$1/day poverty line (ILO 2008). This ILO report also determined that five out of 10 people in the world are in vulnerable employment, being either contributing family workers or own-account workers with a higher risk of being unprotected. At present, very few countries in Asia regularly collect data on informal employment and the informal sector, which ironically is perceived to be prevalent in many developing countries in Asia.

The latest Economic Census 2013 shows that the informal economy has been an important component of the growth dynamics in Bangladesh. Findings reveal that household based economic activities have expanded tremendously over the last decade.⁵⁴

The informal sector has been growing from 79% in 2002 which reached 89% of the total number of jobs in the labor market, and accounts for 43% of GDP. It is more prevalent in the rural areas than in the urban areas. Women's employment in the informal economy has a higher incidence at 93% compared to males' at 87%.

Data from the Informal Sector Survey (ISS) 2010 demonstrated a linkage between education level and informal work, i.e. as the level of education of a worker improved, the worker is more likely to hold a formal job. Workers from the informal economy receive on average at least 35% lower wages than in the formal sector. With reference to the social protection coverage, workers from the informal economy receive less than formal workers. The ISS has also shown that the labor productivity of a typical worker in the informal enterprises is only one-sixth (17%) of the productivity of their counterpart

in the formal sector. The main reasons for engagement in informal activities are family traditional (39%) and due to knowledge of the activity (37%).⁵⁶

As the informal 'sector' is not covered by the Labor Law, a very few unions operate in the informal economy. However, a number of non-traditional groups have started activities, including women in the informal sector, within the WCL national affiliate, Bangladesh Sanjukta Sramik Federation (BSSF). Women's organizations have set up cooperative structures for their members and have taken a series of initiatives, including in the areas of adult education, mother and child care and productive work. Hence, the study was limited only to the analysis of informal sector past and present condition and future challenges. This paper is also suggest some recommendations for the betterment of informal sector in Bangladesh.

2. OVERVIEW OF INFORMAL BUSINESS SECTOR

Definition and concept of informal sector:

Since its first appearance in the early 1970s, the term informal sector has become so popular that now days it is used with different meanings for different purposes. However, the starting point may be the Fifteenth International Conference of Labor Statistician (ICLS) held in January 1993. The resolution of 15th ICLS defines informal sector as follows:

"The informal sector may be broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labor and capital as factors of production and on a small scale. Labor relations-where they exist- are mostly based on causal employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees." Informal sector was first "discovered" in the early 1970s (Bangasser, 2000; ILO, 2002; Adams, 2004; Haan, 2006; Fox and Gaal 2008). In the literature, the informal sector is referred as black market, shadow economy, illegal economy, corruption, not registered economy, underground economy, informal economy, and so on. Sometimes these definitions are used as synonyms; however, in some occasions they differ in meaning depending on which particular dimension of informality they focus (i.e. tax avoidance, corruption, illegal labor, etc.). Nevertheless, all these definitions refer to unregistered or unreported activities within the economy. (Macias and Cazzavillan, 2010). According to SIDA (2004) the term "informal economy" thus refers to all economic activities by workers and economic units that are - in law or in practice - not covered or insufficiently covered by formal arrangements. In fact at one end of the spectrum of the informal economy are small-scale modern manufacturing and service enterprises. At the other end are street vendors, shoe shiners, junk collectors and domestic servants.

Given the unregistered (hidden) nature of informal activities, measuring or estimating the actual size of informality is very difficult. This sector appears to be extensive in both developed and underdeveloped countries, and is estimated to contribute an amount equal to between 16 and 75 per cent of current gross domestic product in many Third-World countries (Abedian and Desmidt, 1990; ILO, 1992). Nonetheless, informal sector remains under the shadow of formal economy (Ihring, J. and K S Moc, 2004; Scgneider, F and R Klingnair, 2004; Schneider, 2007).

It should be noted that,

The informal sector had to be defined in terms of characteristics of the enterprises in which the activities take place, rather than in terms of the characteristics of the persons involved or their jobs.

- Informal sector only belongs to the households sector- there is no any informal sector activities in other institutional sector namely, (i) general government sector, (ii) Financial sector, (iii) Non financial sector and, (iv) NPIs sector.

All informal sector enterprises can be regarded as household unincorporated enterprises but the converse is not true. That is all household unincorporated enterprises cannot be regarded as informal sector enterprises. Thus informal sector enterprises can be regarded as a subset of the household unincorporated enterprises.

One of the distinctions between household unincorporated enterprises and informal sector enterprises is based on whether or not an enterprise employs some employees on a continuous basis. That is household unincorporated enterprises are Employers enterprises i.e. Enterprises employ paid labor on continuous basis. On the other hand, informal sector enterprises are mainly own -account enterprises. These enterprises mainly employ unpaid family workers- also may employ paid workers on an occasional basis.

The production units of the informal sector have the characteristics features of households enterprises and thus fixed and other assets used do not belong to the production units as cannot engaged in transactions or enter into contracts with other units, nor incur liabilities on their own behalf. Expenditure for production is often indistinguishable from household expenditure.

Characteristics of informal sector:

The main characteristics of the informal sector are as follows:

- ~ These enterprises are unregistered.
- ~ Small scale operation, low level of productivity.
- ~ Generation of income is low (mainly mixed income, income as wages and salary is very insignificant)
- ~ Little or no access to institutional credit and organized market.
- ~ Production process generally does not use modern technology.
- ~ Workers are generally unskilled.
- ~ Labor relation mainly based on causal employment, kinship, personal! Social relation but generally not on contract basis.
- ~ Generally not recognized or regulated by the government rules.
- ~ Activities are undertaken generally for self-employment or to earn additional income.

Informal Business Sector in Bangladesh:

About Bangladesh:

Bangladesh is a small country (147,570 sq.km) with large number of population (140.00 mill ion). Population growth rate is around 1.40 percent. The civil labor force (15 +) has been estimated at 49.5 million (LFS-20050-06) of which 37.4million are male and 12.1 million are female. Active civilian labor force (employed population) has been estimated at 47.4 million of which 36.1 million are male. Unemployment rate (excluding under employment) is 4.2%. Around 48% of the total active civilian labor force is engaged in agriculture sector. The GDP (gross domestic product) size is around 4000.00 billion with average growth rate 6.36 %.

Bangladesh is a developing country and like other developing countries, informal sectors present a significant part of the economy and play an important role in employment creation, production and income generation. In Bangladesh, informal sector covers a wide range of economic activities producing goods and services which has substantial contribution to the GDP.

Informal Sector activities in Bangladesh:

Bangladesh is a developing country. Like all other developing countries informal sector plays an important role in the economy and income generation. In Bangladesh, informal sector covers a wide range of economic activities producing goods and services which contribute much to GDP. Though informal sector activities are substantial in Bangladesh yet much attempt has not been taken to quantify the magnitude and incidence of informal activities.

Even informal sector activities in Bangladesh are not adequately defined but informal sector activities are taking place using mostly indigenous raw materials, small capital with small setup. Labor relations are based mostly on causal employment or kinship rather than contractual arrangement with formal guarantees. Sometimes it is difficult to identify the informal sector activities from the formal ones particularly when these enterprises are operated in the location other than household premises. However, following major categories of informal activities are taking place in Bangladesh.

Production of crops and horticulture:

1. Own -account construction,
2. Significant part of animal farming
3. Significant part of the forestry

4. Significant part of the fishing.
5. Retail trade
6. Unorganized transport (rickshaw, bull cart, country boat)
7. Rental services
8. Some part of education and health services (Homeopathic, Ayurveda treatment,
9. Coaching of student by individual person)
10. Very small hotel and restaurant services (snakes and tea-stall).

3. MEASUREMENT OF INFORMAL SECTOR AND INFORMAL EMPLOYMENT IN BANGLADESH

Bangladesh Bureau of Statistics, NSO of Bangladesh, has not yet attempted to collect data on informal sector and informal employment in the country. Bangladesh Bureau of Statistics (BBS), the national Statistical Organization, is entrusted with the responsibility of collecting, collating and disseminating of statistical data but BBS yet has not conducted any surveyor census exclusively on informal sector activities. However, Bangladesh bureau of Statistics, for the first time, conducted a Census on Non-farm Economic Activities (Economic Census) in 1986 to collect data pertaining to all non-farm economic activities irrespective of formal and informal sector. BBS also conducted Economic Census for the second time in 2001-03. But the findings of this survey do not provide data on informal sector activities properly from users' point of view. Some years back, Bangladesh Institute of Development Studies (BIDS) conducted a pilot study on informal sector in 4 selected urban and rural thanas. But the scope and objectives of this survey was rather limited. So the findings are not nationally representative and there might be some definitional problem also. Actually there are no adequate data on informal sector activities in Bangladesh which can help us in clear understanding about the volume and incidence of informal sector activities as well as informal employment. In recent years, some NGOs are working to support informal sector activities. Government of Bangladesh has also taken initiatives to support informal sector activities through rural credit program for reduction of poverty. So we need comprehensive data on informal sector activities. Informal sector statistics are also needed for improvement of National Accounts Statistics in Bangladesh though BBS include part of the informal – sector activities as data sources permitted.

4. OVERVIEW OF THE BANGLADESH LEGAL FRAMEWORK REGARDING ENTREPRENEURSHIP

Informal entrepreneurship and employment needs to be understood in relation to the legal framework in any given country. There is a distinction between illegal processes or arrangements and illegal goods and services. While production or employment arrangements in the informal economy are often semi-legal or illegal (e.g. because of absence of required license, tax registration etc.), most informal enterprises and workers produce and/or distribute legal goods and services. Admittedly, one part of the informal economy - the criminal economy - not only operates illegally but also deals in illegal goods and services. But it is only a small part of a larger whole that is, for the most part, not illegal or criminal. Many informal entrepreneurs operate semi-legally or illegally because the regulatory environment is too costly, too cumbersome or simply nonexistent.

Also, many activities in the informal economy do not generate enough output, employment or income to fall into existing tax brackets.

Business laws and regulations in general:

Currently there does not exist a legal framework that could gradually lead to formalization of such businesses. A survey of current business laws and regulations makes it evident that poor informal entrepreneurs cannot easily be brought within the existing legal framework. Instead, a feasible way to afford legal protection to such entrepreneurs would be to put in place a new regulatory regime. The legal framework that applies to businesses in Bangladesh is burdensome, inter alia, because of lack of public information about relevant laws and regulations, the fragmentation of legal and regulatory requirements among different ministries and offices, and the delays and demands for informal payments that plague virtually every registration or certification requirement.

The time and expense involved in complying with multiple requirements place a special strain on small businesses, especially at the start-up phase and for micro entrepreneurs in the informal sector, who are the targeted constituents of the Commission these requirements are prohibitively burdensome. Various donors are currently supporting projects to simplify and automate some of the regulatory requirements, and to publicize the requirements through brochures, toolkits and websites.

Trade license:

Legislation relating to city corporations and municipalities (paurashava) prohibits any person from carrying on or maintaining within the local limits of city corporations or municipalities any trade or business without obtaining a trade license from the City Corporation or municipality concerned.

Informal enterprises operating within the local limits of city corporations or municipalities violate this legal requirement. However, there is no similar requirement for trade license for enterprises operating outside the local limits of city corporations or municipalities, e.g. rural enterprises. For poor entrepreneurs in the informal sector the procedure for obtaining trade license is both too cumbersome and too costly.

Applications for a trade license are required to be accompanied by copies of rent receipt or rental agreement and holding tax payment receipt. Informal enterprises which do not have any legal title to the occupied land or premise cannot fulfill this requirement. There are also additional requirements for incorporated entities and for entities in specific sectors. The cost of obtaining a trade license may vary depending on where the license is obtained. The cost of obtaining a trade license from the Dhaka City Corporation could be up to BOT 5,000, of which governmental fee is BDT 2,000.

Incorporation:

Incorporation is not essential to formally operate a small business. Thus it may be possible to operate formally by obtaining necessary tax and VAT registrations and trade license but without incorporation. Yet, it is recognized that incorporation - whether in the form of company, society or partnership - does provide certain business advantages. For poor informal entrepreneurs existing procedures for different modes of incorporation are prohibitively cumbersome and expensive. The cost of incorporation (excluding legal fees) could be up to BOT 10,000.

SME Policy:

Government has attached particular importance to SME development as a means of poverty reduction. The Bangladesh Poverty Reduction Strategy Paper (PRSP) approved by the Government in October 2005 attaches importance to SME development and the Government has also adopted an SME Policy. Key elements of the SME Policy include:

- (1) Surveying SMEs to identify industries with growth potential;
- (2) Strengthening the role of public agencies such as BSCIC to provide more effective support to SMEs;
- (3) Providing tax incentives to SMEs;
- (4) Simplifying relevant laws and regulations;
- (5) Fostering subcontracting and other linkages between SMEs and larger enterprises;
- (6) Promoting e-commerce to support SME production and marketing; and
- (7) Establishing an information bank to improve marketing and trade opportunities.

Barrier of Informal Business Sector in Bangladesh:

Impediments faced by poor entrepreneurs

Operating outside the statutory legal framework has considerable costs. Most self-employed and wage workers in the informal sector are deprived of secure work, social protection, workers' benefits and representation or voice. The self-employed have to take care of themselves and their enterprises as well as their employees (if they hire others) or unpaid contributing family members (if they run a family business). They often face competitive disadvantage vis-a-vis larger formal firms in capital and product markets.

Informal wageworkers also have to take care of themselves as they receive few (if any) employer-sponsored benefits. In addition, both groups receive no legal protection from the Government. As a result of these and other factors, a higher percentage of people working in the informal economy, compared to those working in the formal economy, are poor.

The legal and regulatory framework in Bangladesh is such that it is impossible for most informal entrepreneurs to operate formally. Virtually all regulatory requirements for businesses including small businesses, such as registration with the RJSC or the BSCIC, obtaining of a TIN, trade license or other permit and payment of taxes, entail considerable costs. Given the level of literacy and entrepreneurship skill and education, most of the poor entrepreneurs would need assistance if they were to satisfy the currently applicable regulatory formalities. Furthermore, frequent trips to the relevant government offices (sometimes requiring travel to Dhaka or another urban centre) and either the use of influence or informal payments are often required to satisfy regulatory requirements.

Also, in order to obtain various regulatory registrations/licenses, a business typically needs to have business premises that are identified as such. Poor entrepreneurs targeted by the Commission or in this working paper are unlikely to have legal title to land or premises.

In order to conduct their business and survive, the self-employed in the informal sector need to bribe not only local extorters but also government officials (e.g. the police, officials of the city corporation etc.). They have to offer rents (bribes) to the authorities to safeguard them (e.g. by warding off eviction drives or forewarning them of impending dries). There are other forms of extracting rents. In some cases local musclemen, more often than not with the backing of local political leaders, collect protection fees through threats. Despite the payment of such rents/bribes, their conduct of business is not guaranteed and they lack the protection of law.

Limited access to formal credit is another major constraint on informal businesses. Credit is crucial for the self-employed in the informal sector, both to sustain existing activity and to upscale it. The only source of formal credit extended to informal businesses is NGOs, who extend micro loans. However, the micro credit outreach needs to be expanded much more if credit were to be made readily available to poor entrepreneurs. In addition, other difficulties with micro credit have also been identified in some studies, e.g. repeat borrowing, dependency of borrowers on credit for household expenditure, marriage of children and other business unrelated purposes instead of making (capital) investments, women acting as collection agents for male family members, interest rates. Although many informal entrepreneurs have repayment capacity, absence of collateral and firm domiciliary status usually debar them from obtaining institutional credit other than micro credit from NGOs. Therefore informal entrepreneurs often obtain credit at high interest rates from non-institutional sources. Lack of necessary utility services is a further disadvantage faced by informal business. Even where such services are available they are disadvantageous for poor and small entrepreneurs. For instance, home-based businesses are charged higher commercial utility rates, regardless of the size or revenue of the business. Frequent changes in utility charges can disrupt the business plans of the poor as well as small entrepreneurs. appropriation of household and family property. Lack of ownership of land and property seriously impairs the ability of women to start, run or upscale any business, have access to financial system and credit. Credit obtained by women is also often appropriated by male family members.

5. CHALLENGES FOR WOMEN ENTREPRENEURS

Several studies have been undertaken in recent years to understand the particular challenges facing women-owned businesses in Bangladesh. For example, the Policy Leadership and Advocacy for Gender Equality Project (PLAGE project) reviewed business policies, laws and regulations in Bangladesh from the perspective of women entrepreneurs, and conducted surveys, focus groups discussions and interviews to better understand the impact of these and other factors on women-owned businesses.

A recent study of rural women entrepreneurs commissioned by CARE identified social constraints at the family, business/market and community levels. While these studies relate to women entrepreneurs in general, many issues identified in the studies are relevant for poor entrepreneurs. A major constraint, which also underlies the discrimination and harassment that women entrepreneurs experience in their business and in dealing with regulatory authorities, landlords, lenders/banks, clients and others is the strong social disapproval of women in business. Women entrepreneurs often rely on their husbands and family members for financial and other assistance in establishing their businesses. However, family members may prefer that the women work from home and limit their travel and interaction with

unrelated men. Family members will generally expect women to carry out childcare and other household duties in addition to their businesses. At the business/market level, women business owners may become dependent on middlemen because of their limited mobility and lack of information and connections. Because of unwillingness of men to work under a woman entrepreneur, she has limited claim to unpaid male family labor and while she has to undertake responsibility for such unpaid labor. Women entrepreneurs often experience bias and harassment in dealing with landlords, lenders/banks, regulatory authorities as well as clients. Women entrepreneurs may experience harassment when traveling or transacting business in public places. At the community level, traditional norms favoring women's seclusion continue to dominate, especially in rural areas.

Discrimination in access to education and training, gender-stereotyped training and education that devalues women, lack of opportunities for women for apprenticeship in vocational work and other similar impediments, hinder women's ability to enter new areas of activity.

The difficulties and impediments faced by poor entrepreneurs in general in fulfilling applicable legal and regulatory requirements have been noted in the preceding section.

For poor women entrepreneurs fulfilling those requirements are even more burdensome. Furthermore, unequal inheritance laws and inequality in marriage contract result in male appropriation of household and family property. Lack of ownership of land and property seriously impairs the ability of women to start, run or upscale any business, have access to financial system and credit. Credit obtained by women is also often appropriated by male family members.

Limitations of the study:

There are some limitations for conducting this research are given below:

1. They have not enough time for responding to the questionnaires.
2. Only urban areas of Bangladesh have considered.

6. CONCLUDING REMARKS

The role of the informal sector is widely acknowledged in the development process of developing countries. As the informal sector, consisting of very small-scale economic activities, accounts for a substantial, and increasing share, of employment in most developing countries and as a large majority of poor depend on such activities for their livelihood, any credible strategy to reduce poverty in these countries must pay due attention to this sector. For a country like Bangladesh, which looks for means and ways to improve her poverty situation, entrepreneurs of informal economy can lead to prosperity for all.

Due to a lack of physical accommodation (i.e. an authorized permanent business premise) at a suitable location, street enterprises frequently face eviction and harassments by the authorities. The lack of a fixed business premise (foothold) inhibits entrepreneurs' ability to receive credit, thereby restricting capital accumulation and growth. Most of the environmental conflicts generated by street enterprises with the urban built environment can better be managed if they could be confined in certain locations throughout the city. On a macro-scale, street enterprises tend to concentrate in densely populated areas, particularly in areas where the concentration of public functions is high. On a micro scale, street enterprises are highly sensitive to the sources of demand followed by the supply sources and location of their (entrepreneurs') home. regarding the question of intervention inputs, although there is no national policy towards street enterprises in Bangladesh, study findings showed that city authorities are optimistic about supporting street enterprises. Existing Hawker Associations could be an inbuilt advantage within the intervention process to accommodate the street enterprises.

In order to reduce the poverty level through accelerating the growth of micro entrepreneurship in Bangladesh, the government, policy makers, donors, NGOs, MFIs and other relevant organizations need to consider and address non-institutional barriers properly. The integrated approaches are important to overcome the non-institutional barriers through awareness creation, motivational program, sound business plans and a combined external support. Through the right support from the institutional as well as non-institutional associations, micro-entrepreneurs can strengthen their own capacities besides contributing in both family and national earnings. Since micro-entrepreneurial movements and capacity building are imperative for economic and social development in Bangladesh in the long run, an integrated approach is necessary to be deployed within shortest possible time.

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