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Causes of Large Informal Labor Force: An Explanatory Study on the Informal Sector of Bangladesh



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ABSTRACT

The purpose of the study is to find out the causes of large informal workforce of Bangladesh. As per 2010 labor force survey of the government, the country has around 58 million workforces. Among them, 56 million are employed in different economic sectors. But 87% of total employed workforce is working in the informal sector, which is highest in percent among the Asian countries. Most of the informal labor force are working with sole proprietorship and household work where large number of labor are working without any wages. People, working in the informal sector are deprived from social protections and getting less financial benefit compared to the workers of formal sector. On the other hand, informal economy leads the society towards inequality, poverty and creates many socio economic problems like smuggling, drug trafficking, street begging etc. In this situation, the study tried to find out the actual causes that drive the labor force to the informal sector of Bangladesh. The study was conducted on the basis of primary data, which was collected from the different levels of society related with the informal employment. The study targeted five social classes like employees, private owners, business leaders, academic experts and government officials. This the unique attempt of the study, which earlier no one has taken to accommodate the views of different societies of the society. The findings of the study will be the reference to the policy makers to formulate the further plan of the country.

1.0 INTRODUCTION:

Bangladesh is a developing country of nearly 160 million people where 58 million people are considered as the total workforce (participation rate 59%) among whom 56 million is under employment, rest 2 million is unemployed which is around 4.6% of total workforce (*BLFS, 2010*). But most of the employed workforces are struggling for the quality employment, fundamental human rights of labor and minimum living standards. Though about 95% labor is in employment but, nearly 87% of them are working at the informal level either as employees, own account worker, family supportive workers or employer (*BBS, 2010*). As per the report of *World Bank 2000*, informal economy is the phenomenon of developing world. The labor market of the informal economy is mainly for disadvantaged workers who are unskilled, low skilled, female, disabled or older. In Asia 73.7% in India, Indonesia 77.9%, Pakistan 67.1 %, Philippines 66.9%, Thailand 51.4% employment is with non-agriculture informal employment (*Charmes 2000*). In developing countries, informal sector is increasing due to weak capacity of formal sector to generate adequate jobs and income, higher growth of labor force and domestic migration. But informal employment has declined in those countries where there is sustained economic growth (*Charmes 1998*). In this regard, it is a significant challenge for Bangladesh to deal with the informal employment maintaining the robust economic growth in the near future.

In the *International Labor Conference held in June 2014*, released the report that around 40% workforce of the world is working in the informal economy. The conference concludes that the informal economy is an important challenge for access to fundamental human rights for workers like maternal leave and sick leave, social security and decent working conditions. Experts also remark that the informal economy has an adverse impact on the development of viable industries, impartial competition and government earnings.

Many countries in the developing world are not able to take gain the opportunities of their economic growth and unable to secure their labor efficiency and productivity. Millions of people are still relying on survival in the informal economy where labor is low skilled, earning is insufficient, work agreements are illicit and all of which continue the cycle of poverty. (*ILO-JOBS assessment report, 2009*)

2.0 Informal Sector of Bangladesh:

Since 20 years, Bangladesh is having a steady and remarkable economic growth with an

average 6 % GDP growth per year. As the consequences, the poverty line decreased from 56% in 1992 to 32 % in 2010 and 17.1% in 2014 (*BBS 2014*). From the year 2006-10, the total workforce increased from around 49.5 million to 56.7 million. In this time the average growth rate of labor force was 3.40 percent, which means every year 1.8 million new labor force, are entering the job market. Though it is true that Bangladesh has shown its success to reduce the poverty, but the economic growth of the country has not been supported by demanded employment creation in respect of labor force growth per year. (*ILO-2012*). During 2000-06, around 250,000 new employments were generated against each percentage growth of GDP. So, on average 6 % GDP growth means, every year 1.5 million jobs are creating in the economy which is 0.3 million less than demand. It means, 0.3 million people are out of employment per year and the growth is mainly jobless growth. (*Islam 2010*).

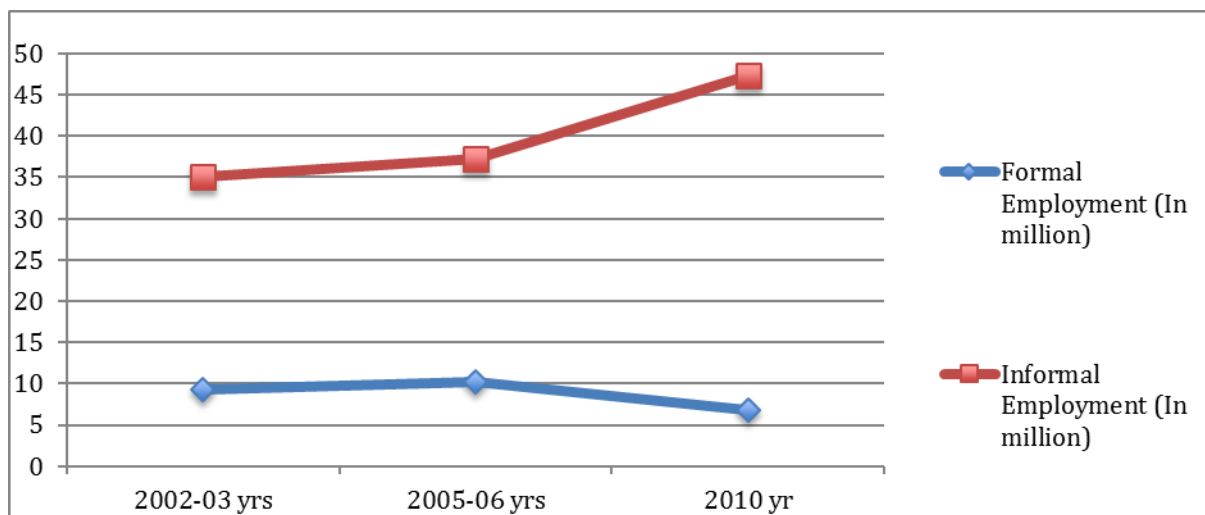


Figure 2.1: Trend of formal & informal workforce:

Source: author based on BLFS

2002-03 labor force survey found that 9.2 million workforces were working in the formal sector that increases to 10.2 million in 2005-06 survey but surprisingly decreases to 6.8 million in 2010 study. On the other hand, informal workforce increased to 47.3 million in 2010 from 37.2 million in 2005-06. It indicates that Bangladesh economy is not generating the employment in the formal sector that means big industries; local and foreign investment is not in touch. Rather the employment is dependent on small trades, agricultural activities and other small activities, which is a very unsustainable and unskilled economy.

A recent Asian development bank report emphasized the growing challenge of creating

quality employment in Asia wherein many countries have informal employment exceeding 40 % of the respective working population (*ADB 2011*). Like many countries in transition away from an agriculture driven economy, Bangladesh economic activities are mainly informal and small in nature. Although informal employment sometimes is taken by choice along with the circumstances, informal works are associated with lower productivity, lower wages, less social protection and higher vulnerability to poverty. Such situation is also going on in Bangladesh where most of the workers are in informal jobs (*ADB country report-2010*).

3.0 Why informal workforce needs to decrease in Bangladesh:

In all over the world, the percentage of family enterprise in the informal sector has decreased and the share of micro enterprises has increased (*World Bank, 2000*). In *2014 ILC*, the world leaders, experts, researchers and economist raised their very concerning views and analysis why transition from informal to the formal economy is very much crucial and significant for any country.

Poverty reduction strategy of the country would be sustainable if it is consistent with a well-articulated employment strategy that creates productive and decent jobs so that workers of every level of skill, education, and training can get remunerative employment. (*Bangladesh Bank, 2008*). Major moving back of development strategy of Bangladesh is lack of transformation of workforce from informal to formal sector (*Sixth Five Year Plan, 2011*).

In a 'labor-surplus' economy such as Bangladesh, the developments in the labor market are crucial to bringing about desirable changes in growth possibilities and meeting poverty reduction and other social goals. In particular, a key challenge is to expand decent employment opportunities through both wage and self-employment to absorb the growing labor force. (*Bangladesh Bank, 2008*).

4.0 Objective of the research:

The objective of the study is as follows:

- To find out the factors that drive the people to go for informal employment to lead their lives.

5.0 Method of Analysis:

To accomplish all the process of study, the paper followed frequency test analysis based on primary data and information. Collected data and information were used for content discussion and analysis through which the finding of the research came up.

Methods of Analysis:

1. At first, I used open-ended questionnaire to find out the major indicators that drive the workforce to informal sector
2. Then I will go for frequency test analysis to find the more significant factors which, causes large informal workforce.

Steps to find out the result:

1. Developed an open ended questionnaire (first part) to find out why people go to informal sector.
2. Find the major causes through Frequency test Analysis
3. Put the overall recommendations based on each finding for future policy makers.

Respondents:

The research did survey on 200-sample size to collect the information of questionnaire. Officials of development organizations like employees of various big and small enterprises, Government officials, business leaders, academics and researchers were the target group for data collection. Because of homogenous respondents of each target group, the study thought that 200 sample size will be fine to find out the result from the ground.

Data collection methods:

Cluster random sampling method on the basis of proportion of respondents in sample strata.

Questionnaire: Open ended

Data analysis:

Process 1: Bring all the field data to the excel sheet as per indicators.

Process 2: Frequency test analysis to find out the major causes based on the answer of each respondent. Moreover, the study will segregate each of the respondent group and will show the result of each group and their responses on the issue.

6.0 Research Questions:

- What are the reasons that led the workforce to the informal sector for their employment?

7.0 Literature Review:

"The Informal Economy and Decent work" *A Policy Resource Guide published by ILO* in 2013 mentioned, "the informal economy is acting as the transit hub for the unemployment and it disintegrates the growth of any economy and absorb the surplus labor." Evidence across the countries shows that informality continues in many countries, which have experienced robust and sustained economic growth. "In those developing countries, there is a complex relationship emerges where economic downturns throw people into the informal employment as a survival option and economic upturns fail to bring them back into the formal system" (*ILO 2013*). The book identified seven causes for which people tend to go to the informal economy as a workforce. Those are:



In 2013, a survey by Unnayan Onnesa a leading NGO in Bangladesh, stated that there are multiple reasons are behind for which large number of labor is engaged in informal sector. The survey showed that 62.7 % respondent replied that due to the crises of jobs, people are engaging in informal sector. Then 44.1 % mentioned that due to surviving their daily lives,

labors are involving in informal work. Lack of skill is the reason, mentioned by 40.6 % and lack of education is the cause for 33.9 % of respondents. 27 % of the respondents said that they are working in the informal sector as they don't have any connection with politics and some 16.5 % respondent claimed, because of the affiliation with opposition party of government, they are not getting any formal jobs.

According to Journal of the Institute of Bangladesh Studies Vol. XXVI 2003, There has been rapid in formalization of the labor market. The journal raised some critical issues and described that due to depressed level of employment, increased job insecurity, job displacement, growing risk of sudden rejection from employment for those without appropriate skills. The Journal highlighted the urgency of continuous acquisition of competences through training and education. So, the journal of this institute ultimately indicates that lack of jobs in the formal sector and lack of appropriate skills are the two main reasons for which people are with the informal employment.

Bangladesh Labor Force Survey 2010 described the relation of unemployment and education with the following levels:

Table: 8.2: Influence of education in formal & informal employment:

	Percentage of employment	
	Formal	Informal
No Education & Primary	28	68.5
Secondary	42.4	27.1
HSC/Equivalent	10.2	2.4
Tertiary*	17.8	1.7
Medical/ Engineering degree	1.1	0.1
Technical/ Vocational Education	0.5	0.1
Total	100	100

Source: BLFS 2010

Above table shows that more educated people tend to work in the formal sector whereas no educated or less educated people are working mainly in the informal economy. As earlier, we

have seen from the BLFS data that informal sector workers in Bangladesh are primarily day labors, supportive workers with no wages and own account workers. So, educated people tend to look for formal employments that ensure better financial benefits and job security. But Bangladesh has an immense number of uneducated or less educated or unskilled labor force. These people have no ability to go for formal employment and drives for informal employment.

"Dynamics of Labor Force 2013", by Unnayan Onnessa, a research organization stated "Informal sector has increased at an annual rate of 4.90 % during 2005 to 2010. The main reason beyond this is to all economic sectors experienced an increase in informal jobs in this period and many formal sectors enterprises may give jobs that are intimately with the informal sector. The report also says that many employees in the RMG sector in Bangladesh do not get an appointment letter, as well as many enterprises, may not obtain the required registration etc. for qualifying as formal sector because they do not have an incentive to do so.

All the researchers gave the idea about the effects of informal employments. But no study pointed out the causes of workforce drives for informal work based on the class of respondents. This study did the study on the different sample classes of the society and tried to find out the actual causes from different aspect of views. Then based on that study findings, put the recommendations to way forward towards formal employment.

9.0. Paper Analysis:

Data Collection:

To collect the information from the ground reality, a field survey with open-ended questionnaire was given to the targeted sample of different classes of the society. Academics, researchers, business communities, government officials, job seekers and workers of different industries were interviewed to reflect their views in the research.

Sample Size:

Total Sample: 200

Employees: 120

Private Owners: 20

Business Leaders: 20

Academic experts: 20

Government officials: 20

All the individuals of the sample were asked the following open-ended question,

**Why do people go to the informal sector for their earnings?*

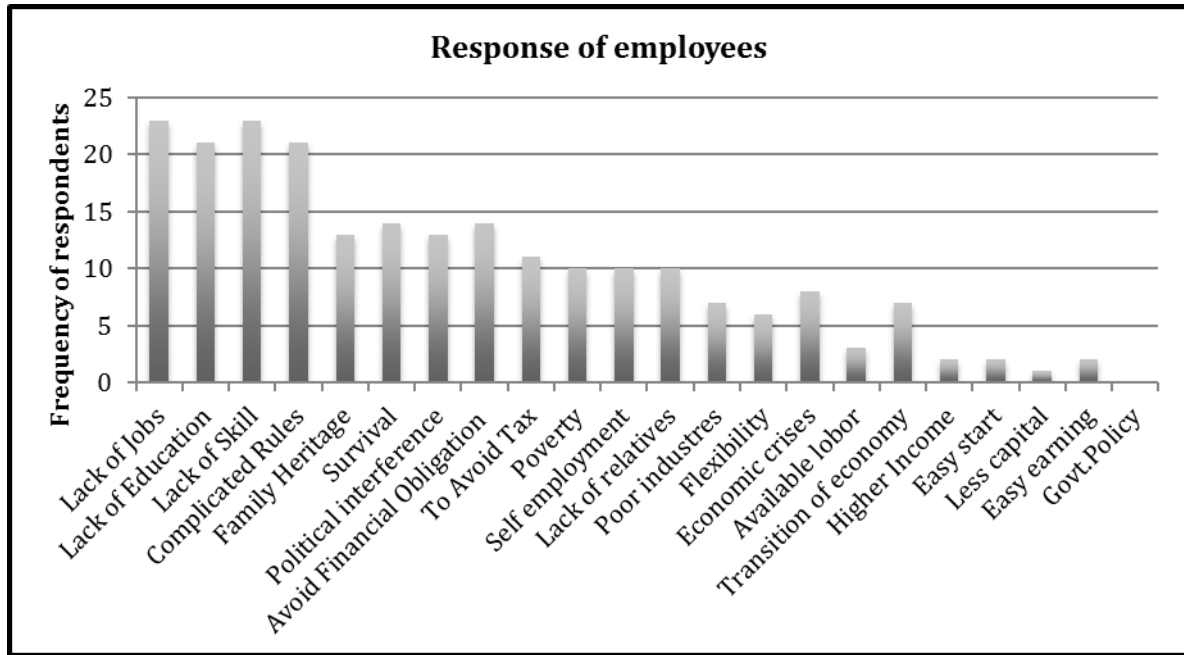
Different people have given their different views. Some have pointed multiple reasons as the causes. All the collected data were given an entry in the excel system. Similar answer was put within the single cause. Then collected data were analyzed in the SPSS software based on the collected opinion of the 200 samples.

Analysis by respondent groups:

The study also gave the emphasis on the segmented analysis based on the class of respondents. We have selected 5 types of respondents: employees, personal owners, academic experts, business leaders and government officials. Then each group is analyzed based on their responses.

Employees:

The total numbers of respondents of employees were 120 who are the biggest number of respondent group. The following table shows the result of their responses:



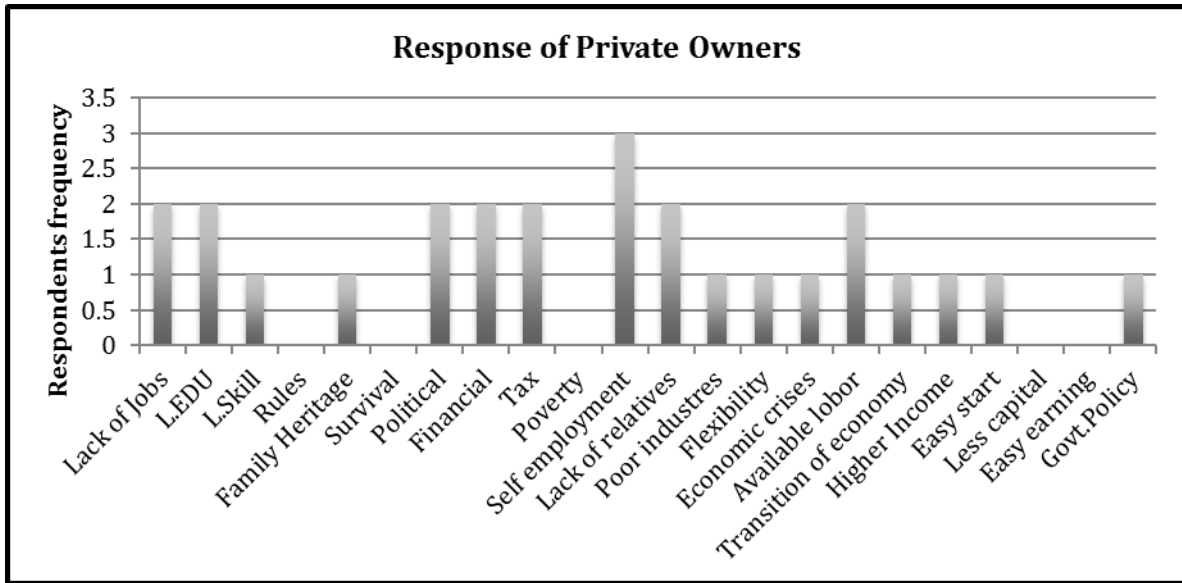
The above figure reflects that employee group gave the emphasis mainly on the following causes that drive the workforce to informal employment. Those are:

- Lack of jobs in the formal sector
- Lack of education
- Lack of skill
- Lack of rules of government
- Family heritage
- Survival
- Political Influences
- Financial regulation and taxes



Private owners:

The numbers of private owners were 20 and they actively gave their opinions based on their personal experiences. At the end the following result came out from their responses:

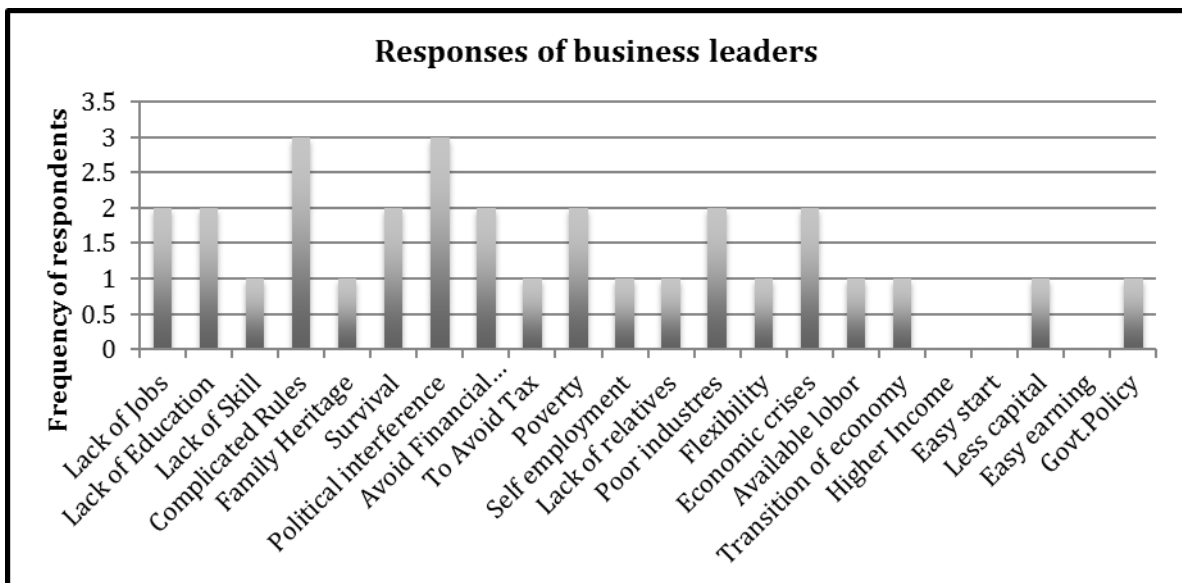


From the above graph, we can see that private owners have raised some issues, which are quite similar to employee’s responses. But they added two more significant causes for high informal employment. Those two are intention of self-employment and available supply of labor force in Bangladesh.

Business Leaders:



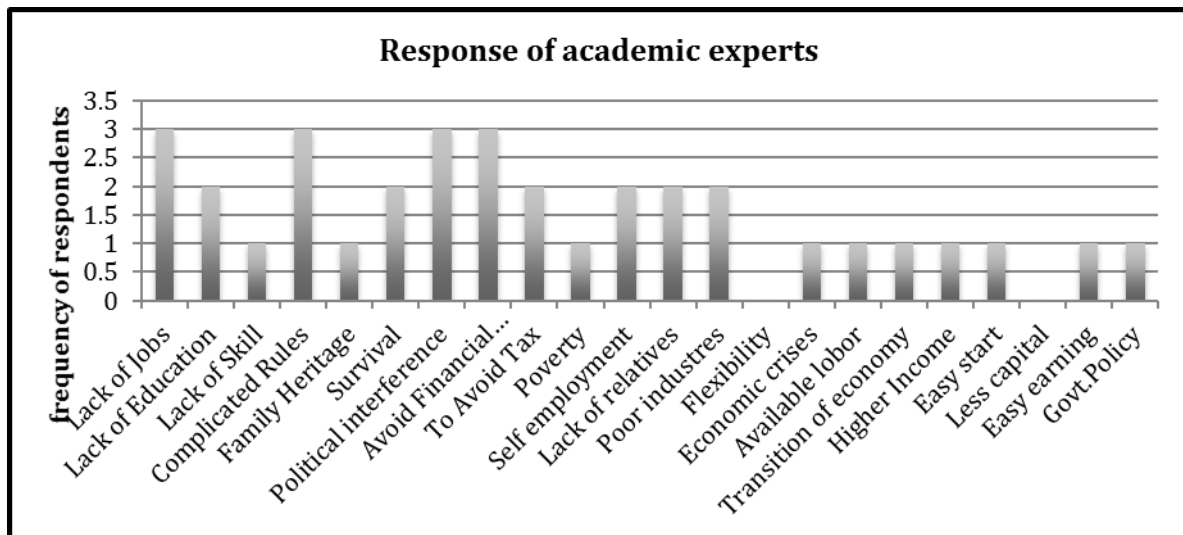
The study interacted with the business leaders to find out the root cause for high informal employment. The number of total sample size was 20 who were selected from types of industries.



The above graph gives the clear indication that business leaders have given the importance on government rules and political interference as the causes of workforce going to informal sector. Though they also agreed with some respondents of employees and private owners but lack of government rules and political involvement are the main reasons of informal sector employment.

Academic Expert:

Academic experts are the very important sample to find out a neutral opinion in any aspect. The study went through with 20 experts of different universities as well as research organizations. Based on their opinion we found the following information:



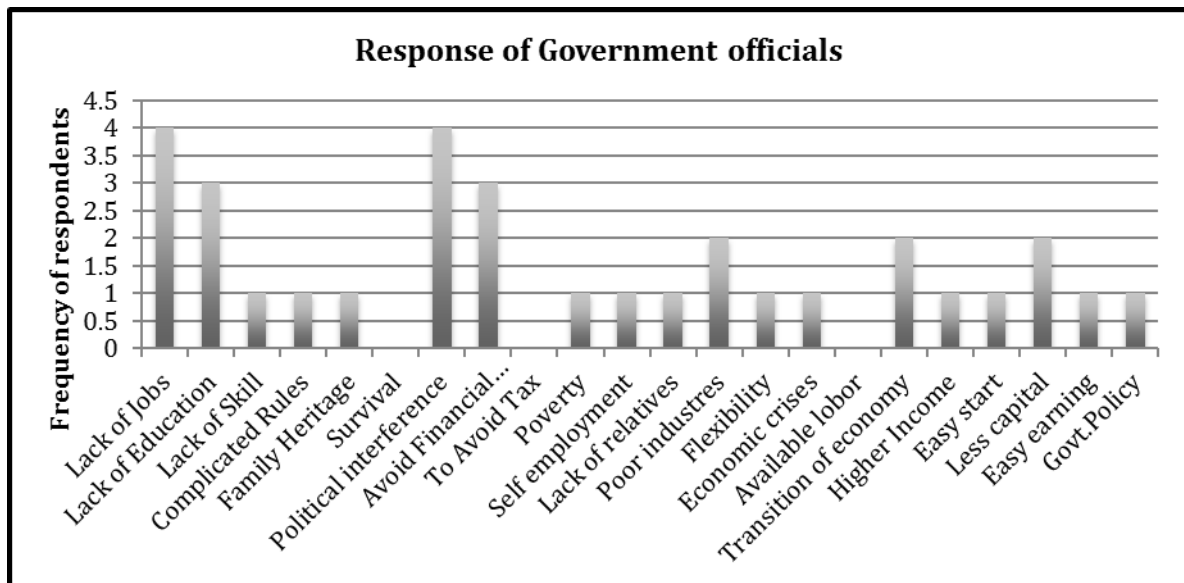
From the graph, we can see that academic experts have pointed out 4 major causes that drive workforce to informal sector. Those are:

- Lack of jobs in formal sector
- Lack of government rules
- Political interference
- To avoid financial rules and taxes

Government Officials:

Another very significant sample portion is government officials. They are the ultimate key maker who can contribute to change the policy as well as to formulate the proper planning.

The study interviewed 20 government officials from different departments of the government.

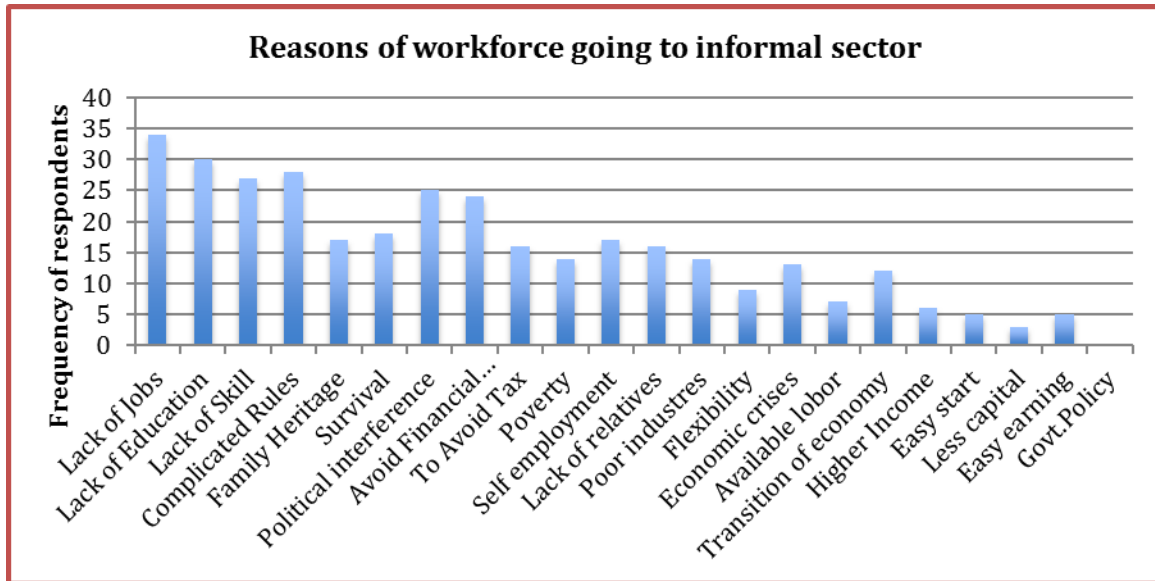


In the graph, we can find out that government officials emphasise 4 main factors which influence the workforce to go to informal sector. These are:

- Lack of jobs in the formal sector
- Lack of education
- Political interference
- To Avoid financial regulation



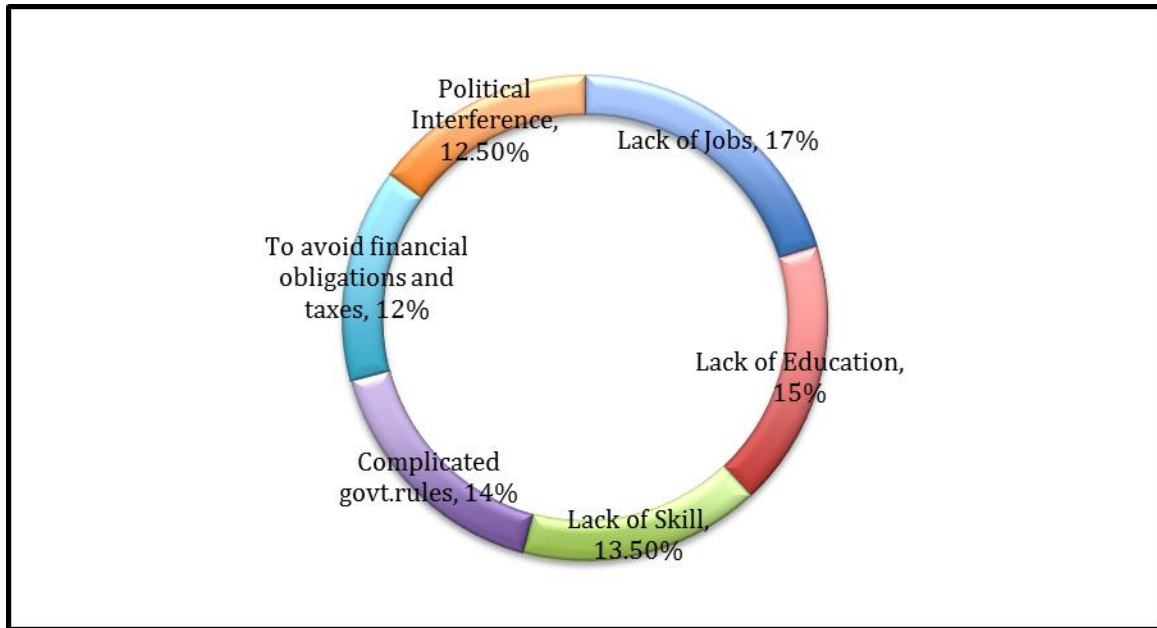
After the analysis of the overall 200 respondents, the study found the following result from the system:



From The collected data, it is shown that the respondents mentioned of total 24 causes as the causes for informal employment. After the data shorting through the frequency analysis, we found that 6 indicators have the most significant influence to drive the workforce to informal sector. In the table, we can see that those indicators have the more frequencies of respondents which have the significant influence to force the workforce towards informal sector. Though all the indicators have the different level of influence on informal employment. After the frequency analysis test, the study found more significant indicators or drivers which play the important role to boost the informal sector of Bangladesh. Those are as follows:

- Lack of jobs in the formal sector
- Lack of education
- Lack of skill
- Lack of government rules
- Political influence
- Financial rules and regulations

The significance of those factors is shown in the following chart;



10.0 Findings of the Study:

The study came up with couple of significant factors based on the response of the selected sample of different levels. Those finding shows us that because of these factors mainly workforce of Bangladesh are going to informal sector to manage their employment. Those findings of the study are as follows:

- Lack of jobs in the formal sector is a crucial factor. Most of the respondents have given their emphasis on this factor. They mentioned that every year huge number of workforce is coming to the job market. But the numbers of formal jobs are very limited compared to demand. As a result, new workforce is driving towards informal sector.
- The study emphasis on the lack of education as a one of the burning problem to force the workforce to informal sector.15% of the total respondents pointed that lack of education is a key challenge to deploy the workforce in the formal sector.
- As another significant factor, the study found that lack of skilled workforce is also responsible for large informal sector of Bangladesh.
- A significant number of respondents replied that to avoid complicated rules of government, many private owners and enterprises do not go for proper registration to be considered as formal entity.

- Political influence is a threat to the view of many respondents. They mentioned that to secure a job in the formal sector they need to have the connection with political party. Moreover, political leaders play a role to provide the jobs in the formal sector mainly in the government sector.
- Avoiding financial rules and regulations is another factor for the business holders to establish informal enterprises. Because formal enterprises have to pay a lot of money as well as tax to the government based on their operation and profit.

11. Recommendations:

The study likes to put the following recommendations as per the finding of the field research:

- We should come up with the policy to establish more and more formal enterprises and industries, which can create more formal employment.
- Government should formulate the policy in cooperation with private sector to create more market oriented educated workforce who can work in the formal sector as the human resource.
- Still, skilled workforce is not available in the job market of Bangladesh. Hence, government should come up with an integrated policy to establish many technical institutes to build up technicians in various fields to ensure the supply of skilled manpower.
- To be registered as a formal entity, an enterprise has to follow many complicated rules of government. In this case, government should make the registration process much easier and simple for easy registration.
- All the ruling parties leaders have an influence in the recruitment process of government jobs. In this aspect, the leaders of the government should take necessary initiatives to stop this bad practices in the coming days.
- The financial charges and fees, as well as taxes, should reduce and rebate up to a minimum period of time so that the business owners would not be panic to avoid the financial regulations.

12.0 CONCLUSION

The paper has given the effort to look into the story of each cause with the help of different statistics, discussion, and analysis. Then paper came out with significant findings to answer why those factors exist. These finding we may say as problems or challenges, which the country is confronting on the way to decent employment.

At last, the recommendations were drawn from the findings to meet the objectives of this paper. For each factor, separate recommendations have pointed. As earlier mentioned that the lack of education and skill are supply side factors, so in the recommendations, the paper showed the ways to increase the educated and skilled workforce in the country. On the other hand, demand side factors are lack of jobs in the formal sector, to avoid regulatory process and political corruption. So, suggestions are given so that the country can create employment in the formal sector, ensure the regulatory process and stop political corruption. If Bangladesh can meet the existing main problems of both demand and supply side then we can ensure a large number of formal workforces, which is important for national well-being.

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