

Reducing Unemployment through the Informal Sector *The Case of Bangladesh*

Md. Abu Raihan*

Dr. Md. Nazrul Islam **

Abstract: *This paper shows the unemployment scenario of Bangladesh and discusses how widespread unemployment can be reduced through the informal sector. Unemployment in Bangladesh has taken dreadful form. Presently, more than two million people, who constitute 4.3 percent of the labor force, are unemployed. Creation of jobs for all these unemployed people in the formal sector is not possible. Out of 47.4 million employed people, only 12.29 percent are employed in the formal sector and 87.71 percent are engaged in the informal sector. The informal sector is easily manageable, unsophisticated, less capital demanding and uses indigenous technology. Therefore, the government should undertake necessary measures to develop the informal sector with a view to reducing growing unemployment in Bangladesh.*

1.0 Introduction

Bangladesh is a small country of 147570 square kilometer with a large population of 144.5 million. The present population growth rate is about 1.4 percent (GOB 2009). Poverty is the number one problem of Bangladesh. Although Bangladesh has made commendable success in poverty reduction during the last two decades, still now 40.0 percent people live below the upper poverty line (per capita daily calorie intake is less than 2122 kilocalorie) and 25.5 percent people live below the lower poverty line (per capita daily calorie intake is less than 1805 kilocalorie)(GOB 2009). Unemployment is the main cause of this widespread poverty. The active civilian labor force has been estimated at 49.5 million of which about 47.4 million are employed and 2.1 million are unemployed. The present rate of unemployment (excluding underemployment) is 4.2 percent. The growth rate of employment has shrunk by 50 percent while unemployment rose by 50 percent since 2003. Total paid employment has declined from 16 million in 1999-2000 to 15 million in 2002-03 and 15.2 million in 2005-06 (BBS 2008). The country experienced a steady rise in GDP growth during the last five years (2003-

* Head of the Department, Department of Economics, Hamdard University, Bangladesh

** Professor, Department of Economics, Jatiya Kabi Kazi Nazrul Islam University, Trishal, Mymensing, Bangladesh

2007) when it grew at an average annual rate of more than 6 percent compared with 5 percent over the previous five years. Despite higher economic growth, employment grew at a relatively slow rate of 1.6 percent per annum since the 1990s (Rahman et al 2008). Agriculture is still the largest sector of employment which provides jobs to 22.8 million people (BBS 2008). Since the industrial sector has not flourished, unemployment problem has taken acute form. Unemployment is a curse because this problem gives rise to many social, economic and political problems. Unemployment problem also deteriorates law and order situation which affects the normal business environment of a country. Employment is the most reliable weapon to combat poverty. This is why the United Nations (UN) included another target in the Millennium Development Goals just seven years before the target year- achieving full and productive employment and decent work for all, including women and young people (ADB 2009).

Like other developing countries, Informal sector plays an important role in the economy of Bangladesh. Out of 47.4 million employed labor force, 41.54 million (87.71 percent) are employed in the informal sector and only 5.82 million (12.29 percent) are employed in the formal sector (ADB 2009). Employment generation in the formal sector is meager due to a number of factors. Investment generates employment opportunities. But industrial investment, both domestic and foreign, in Bangladesh is wretchedly stagnant. Another instrument to generate employment is foreign direct investment (FDI). But the FDI situation in Bangladesh has also continued to be discouraging. On the annual basis the highest level of actual FDI achieved is US \$ 845 million in 2005 after which it shows declining trend in 2006 (US\$ 793 million) and 2007 (US\$ 666 million)(GOB 2009). Besides, major portion of FDI has been invested in oil and gas explorations and power sector and little has gone into industrial production. The various reasons behind the declining FDI include: deteriorating law and order situations, political unrest, bureaucratic hassles and hindrances, underdeveloped infrastructure, underdeveloped capital market and widespread corruption (Barkat 2004).

There has been significant trade liberalization in Bangladesh during the 1990s and its impact on employment was not always positive. A joint study carried by CPD and the ILO found that employment in general suffered during the second phase of trade liberalization (ILO and CPD 2007). The housing and poultry sectors that emerged as major sources of employment in the urban areas are now facing serious setbacks. The

housing sector is facing a deep crisis due to high prices of construction materials. The poultry sector is facing ruin because of bird flu.

Since 87.71 percent of the employed labor force is engaged in informal sector and only 12.29 percent are engaged in formal sector the government should emphasize on the development of the informal sector to combat the unemployment problem. The informal sector is easily manageable, unsophisticated, less capital demanding and uses indigenous technology. Therefore, it is easier for the government to create employment opportunities in the informal sector spending less money and time.

2.0 Objectives of the Study

The study mainly focuses on how widespread unemployment in Bangladesh can be reduced by developing the informal sector. The specific objectives are:

- i) to review the unemployment scenario of Bangladesh
- ii) to examine the informal sector and its contribution in the economy of Bangladesh
- iii) to analyze the problems and constraints faced by informal sector
- iv) to suggest recommendations to develop informal sector with a view to generating more employment opportunities for the unemployed people.

3.0 Methodology

The paper is based on secondary data. The relevant data are derived from publications of Bangladesh government, ADB, ESCAP, and World Bank, seminar papers, reports, journal articles, books, and websites.

4.0 Structure of the paper

The rest of the paper is structured as follows: Section-5 describes nature and extent of unemployment in Bangladesh. Section-6 explains the concept and characteristics of informal sector. Section-7 describes informal activities in Bangladesh and its contribution in the economy. Section-8 identifies and analyses the problems facing the informal sector, section-9 suggests several steps that should be undertaken to develop the informal sector to generate more employment opportunities and Section-10 concludes the paper.

5.0 Nature and Extent of Unemployment in Bangladesh

A person is said to be "unemployed" if he or she is looking for work, is willing to work at the prevailing wage, but is unable to find a job. Bangladesh has been facing growing unemployment since its independence in 1971. Presently, the problem has taken dreadful form. According to the labor force survey (LFS) 2005-06, more than two million people, who constitute 4.3 percent of the labor force, were unemployed. The survey also reveals that 11.6 million people, or 24.5 percent of the employed labor force, were underemployed with limited working opportunities. The growth rate of employment has shrunk by 50 percent while unemployment rose by 50 percent since 2003. Total paid employment declined from 16 million in 1999-2000 to 15 million in 2002-03 and 15.2 million in 2005-06. The survey reveals that annual employment growth was 2.2 percent during 2003-2006, compared to 4.4 percent in 2000-2003 (BBS 2008). Absolute unemployment increased in all these years because of the government's inability to generate new jobs.

A good number of factors, including unbridled growth in population, sluggish industrial growth, defective land ownership and defective education system have contributed much to the ever rising unemployment crisis. The cumulative effects of all such factors have created a dreadful scenario of unemployment, as the formal employment sectors can employ only insignificant part of the new job-seekers every year. Creation of jobs in the formal economy, which is a key objective of development policy, is not encouraging. Employment in the manufacturing sector remains stagnant, while the agriculture sector that contributes nearly half of the total employment in the country shows a declining trend. Restoring confidence of the investors carries enormous significance in addressing the woes of unemployment.

Table-1: Unemployed population aged 15 years and over By sex and residence, 1999/2000-2005/2006 (in thousand)

Residence	Total	Male	Female
	No. of Unemployed Population	No. of Unemployed Population	No. of Unemployed Population
1999-2000			
Bangladesh	1749 (4.3)	1083 (3.4)	666 (7.8)
Urban	533 (5.8)	356 (5.0)	176 (8.3)
Rural	1216	726	489

	(3.9)	(2.9)	(7.6)
2002-2003			
Bangladesh	2002	1500	502
	(4.3)	(4.2)	(4.9)
Urban	562	396	166
	(5.0)	(4.6)	(6.2)
Rural	1440	1104	336
	(4.1)	(4.0)	(4.4)
2005-2006			
Bangladesh	2104	1250	854
	(4.2)	(3.4)	(7.0)
Urban	505	315	190
	(4.3)	(3.6)	(6.7)
Rural	1599	935	664
	(4.2)	(3.3)	(7.2)

Source: BBS, 2008.

Note: Figures in the parentheses indicate the percentage to the total

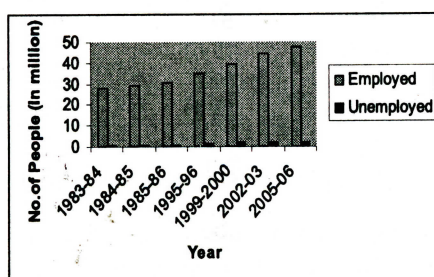
Table-1 shows the unemployed population of 15 years and over during 1999-2000 to 2005-06. The rate of unemployment stands at 4.3 percent which was also the same in 2002-2003 and 1999-2000. In the urban area, the unemployment rate was 4.3 percent in 2005-2006, whereas it was 5.0 percent in 2002-2003 and 5.8 percent in 1999-2000. On the other hand, the unemployment rate was 4.2 percent in the rural area in 2005-2006 which was 4.1 percent in 2002-2003 and 3.9 percent in 1999-2000. There exists sex differentials in the unemployment rate where the unemployment rate for male was 3.4 percent in 2005-2006 and it was 4.2 percent in 2002-2003 and 3.4 percent in 1999-2000. In the urban area, the unemployment rate for male was 5.0 percent in 1999-2000 and 4.6 percent in 2002-2003 which reduced to 3.6 percent in 2005-2006. In the rural area, the unemployment rate for male was 2.9 percent which increased to 4.0 percent in 2002-2003 and again reduced to 3.33 percent in 2005-2006. For the females, the unemployment rate for Bangladesh, urban and rural area was 7.8 percent, 8.3 percent and 7.6 percent in 1999-2000 which decreased to 4.9 percent, 6.2 percent, and 4.4 percent respectively in 2002-2003 but again increased to 7.0 percent, 6.7 percent and 7.2 percent respectively in 2005-2006.

Table-2: Employed and unemployed population (15+ years and above of Bangladesh over time, 1983-84 to 2005-06 (in million)

Employment status	1983-84	1984-85	1985-86	1995-96	1999-2000	2002-03	2005-06
Employed	27.9	29.0	30.5	34.8	39.0	44.3	47.4
Unemployed	0.5	0.5	0.4	1.3	1.7	2.0	2.1

Source: BBS, 2008.

Figure-1: Employed and unemployed population (15+ years and above) of Bangladesh over time, 1983-84 to 2005-06.



The rising trend of unemployment is also shown in Table-2 and figure-1 for the period 1983-84 to 2005-2006. We see that the employed population increased from 27.9 million in 1983-84 to 47.4 million in 2005-06. In the 1980s, the number of unemployed population was around 0.5 million which increased sharply to 1.3 million in 1995-96 and 2.1 million in 2005-06. This means that employment opportunities are not enough to absorb the continuously increasing population. The contribution of formal sector or organized sector in the total employment is very meager in comparison with that of informal sector. In 2005-06, the total employed labor force was 47.4 million out of which only 5.82 million (12.29 percent) were employed in the formal sector and 41.54 million (87.71 percent) were employed in the informal sector (ADB 2009).

5.1 Educated and Uneducated Unemployment

Unemployment rate by level of education has been presented in table-3. It is observed that unemployment rate increases with the increase of education level up to HSC or equivalent level and then it reduces for degree or equivalent and for master degree and equivalent levels. The unemployment rate for engineering and medical degree holders and those with technical/vocational degree were higher than for general degree /equivalent holders.

At the national level, for the total unemployment, the highest unemployment rate (9.98 percent) was observed for those with educational level HSC/equivalent* (Higher Secondary Certificate) followed by SSC/equivalent (Secondary School Certificate) (7.78 percent) and engineering/medical degree holder (7.17 percent).

There exists urban-rural variation in unemployment rate by level of education. In the urban area, the highest unemployment rate was found in case of those having HSC/equivalent educational level (8.39 percent) followed by engineering/medical degree holders (7.53 percent) and persons with educational level class IX-X (7.23 percent). In case of rural area, the highest unemployment rate was observed for those having technical/vocational education (12.27 percent) followed by those with HSC/equivalent educational level (11.33 percent) and those having masters/equivalent educational level (8.7 percent).

Table 3: Distribution of unemployed population aged 15 years and above by level of education and residence (in thousands).

Level of Education	Bangladesh	Rural	Urban
No education	559 (2.79)	482 (2.89)	77 (2.31)
Class I-V	375 (3.19)	303 (3.28)	72 (2.86)
Class VI-VIII	316 (5.04)	243 (5.04)	73 (5.05)
Class IX-X	251 (6.74)	188 (6.59)	62 (7.23)
SSC/equivalent	262 (7.78)	192 (8.56)	70 (6.21)
HSC/equivalent	186 (9.98)	114 (11.33)	72 (8.39)
Degree/equivalent	100 (6.83)	78 (7.4)	47 (5.57)
Masters/equivalent	41 (5.4)	17 (8.7)	24 (4.25)
Engineering/Medical	8 (7.17)	1 (5.1)	7 (7.53)
Technical/Vocational	4 (6.99)	3 (12.27)	1 (2.88)
Total	2104 (4.25)	1599 (4.24)	505 (4.31)

Source: BBS, 2008.

Note: Figures in the parentheses indicate the percentage to the total.

5.2 Duration of Unemployment

Duration of unemployment has been presented in table-4. We see from the table that the highest 65.67 percent were unemployed for less than 3 months followed by 7-12 months (12.44 percent) and 13-24 months (10.6 percent) and 3-6 months (6.07 percent). There exist sex differentials in duration of unemployment. The duration of unemployment for < 3 months is lower for male (58.73 percent) than for female (75.81 percent). Among males, the duration of unemployment for 3-6 months, 13-24 months and 25 months and over were 7.23 percent, 15.78 percent, 13.36 percent and 4.9 percent respectively. For females such percentages for 3-6 months, 7-12 months, 13-24 months and 25 months and over were 4.38 percent, 7.56 percent, 6.57 percent and 5.67 percent respectively.

There exists rural-urban variation regarding the duration of unemployment. In the urban area, the percentages of duration of unemployment for < 3 months, 3-6 months, 7-12 months, 13-24 months and 25 months and over were respectively 54.53 percent, 8.79 cent, 16.64 percent, 15.43 percent and 4.62 percent. The corresponding percentages for the rural area were respectively 69.19 percent, 5.22 percent, 11.12 percent, 9.08 percent and 5.40 percent.

Table-4: Unemployment rates of population aged 15 years and over by duration of unemployment, sex and residence:

Duration of unemployment	Bangladesh			Urban			Rural		
	Both sex	Male	Female	Both sex	Male	Female	Both sex	Male	Female
Total Month	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
< 3 months	65.67	58.73	75.81	54.53	46.96	67.04	69.19	62.7	78.33
3-6 months	6.07	7.23	4.38	8.79	10.13	6.58	5.22	6.25	3.75
7-12 months	12.44	15.78	7.56	16.64	21.33	8.87	11.12	13.91	7.19
13-24 months	10.6	13.36	6.57	15.43	17.04	12.75	9.08	12.12	4.8
24 months and over	5.21	4.9	5.67	4.62	4.54	4.77	5.4	5.02	5.93

Source: BBS, 2008.

5.3 Youth Unemployment

In Bangladesh persons of age 15-29 years are called youth. The total number of youth labor force is 17.75 million i.e 35.85 percent of total labor force. The youths are the main driving force of an economy. The progress of a country depends, to a great extent, on the participation of

the youths in economic activities. Let us now see the pattern of youth unemployment in Bangladesh which has been presented in Table-5.

Table-5: Employed and unemployed youths aged 15-29 years by sex and residence (in thousand)

Economic Category	Bangladesh			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Total youth Labor force	17750	13167	4583	4163	2965	1198	13587	10202	3385
Employed	16311 (91.9)	12219 (92.8)	4092 (89.28)	3798 (91.23)	2718 (91.68)	1080 (90.11)	12514 (92.10)	9501 (93.13)	3012 (88.99)
Unemployed	1439 (8.1)	947 (7.2)	491 (10.72)	365 (8.77)	247 (8.32)	118 (9.89)	1074 (7.9)	701 (6.87)	373 (11.01)

Source: BBS, 2008.

Note: Figures in the parentheses indicate the percentage to the total.

It is observed from table-6 that out of total youth labor force 91.9 percent were employed and 8.1 percent were unemployed. The percentage of unemployed youths was higher in the urban area (8.77 percent) than in the rural area (7.9 percent). There exists sex variation in youth unemployment. Unemployment, in general, was more pronounced among the females (10.72 percent) than males (7.2 percent). In the urban area, youth unemployment rate among the females was higher (9.89 percent) than among the males (8.32 percent). This is also true for the rural area. Unemployment rate among the females (11.01 percent) was almost double the rate among the males (6.87 percent)

6.0. Informal Sector

The term 'informal sector' was first used by Keith.Hart in 1971 while studying economic activities in urban Ghana (Hart, 1973). ILO (1972) defines the informal sector as the non-structured sector that has emerged in the urban centres as a result of the incapacity of the modern sector to absorb new entrants. The informal sector can be seen on streets, sidewalks and back alleys of cities and includes petty traders, street vendors, coolies and porters, small-scale artisans, barbers and shoeshine boys. The main characteristics of the informal sector are as follows (ADB 2009, Becker 2004):

- 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.
- Little or no division between capital and labor as factors of production
- Production process generally does not use modern technology.
- Workers are generally unskilled.
- A major share of the informal sector is composed of self-employed individuals
- 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 employment can be classified into two: informal self employment and informal wage employment. Under informal self employment are employers in informal enterprises; own-account workers in informal enterprises; unpaid family workers, and members of informal producers' cooperatives (Chen 2006). Informal wage employment includes persons employed either in formal or informal enterprises without formal contracts, worker benefits or social protection. The dichotomy discussed above suggests that informal employment cuts across all employment status categories: employers, employees, own-account workers, unpaid family workers, and members of producers' cooperatives (Husmanns 2004).

7.0 Contribution of Informal Sector in the Economy of Bangladesh

7.1 Informal Sector activities in Bangladesh: Bangladesh is a developing country. Like all other developing countries informal sector plays an important role in the economy of Bangladesh. Informal sector covers a wide range of economic activities producing goods and services which put significant contribution to GDP and employment generation. Yet substantial 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 these 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 (ADB 2008):

- Production of crops and horticulture.
- Own -account construction,
- Significant part of animal farming
- Significant part of the forestry
- Significant part of the fishing.
- Retail trade
- Unorganized transport (rickshaw, bull cart, country boat)
- Rental services
- Some part of education and health services (Homeopathic, ayurvedic treatment, coaching of student by individual person)
- Very small hotel and restaurant services (snakes and tea-stall).

7.2 Contribution to Employment: Out of 47.36 million employed people in Bangladesh, 41.54 million are informal workers (87.71 percent), while only 5.82 million (12.29 percent) are engaged in formal employment (ADB 2009). Table-6 shows that workers with informal employment are mostly in the agriculture, hunting and forestry (52%); wholesale and retail trade (15%); manufacturing (9%); and transport, storage, and communications (9%) sectors. On the other hand, workers with formal employment are mostly in the manufacturing (27%), education (18%), wholesale and retail trade (13%), and public administration and defense (13%) sectors. The Government of Bangladesh employs the largest number of formal workers, a combined 30%, in the education, public administration and defense sectors. Meanwhile, workers with formal employment are least found in the sectors on mining and quarrying; private households; fishing; and electricity, gas, and water (EGW).

Table- 6: Distribution of Informal and Formal Workers by Industry

Industry	Type of Workers	
	Formal (%)	Informal (%)
Agriculture, Hunting, and Forestry	1.48	51.97
Fishing	0.71	2.54
Mining and Quarrying	0.09	0.11
Manufacturing	26.72	8.83
Electricity, Gas, and Water Supply	0.78	0.07
Construction	1.39	3.48
Wholesale and Retail Trade, Repairs, etc	13.24	15.26
Hotels and Restaurants	1.72	1.47
Transport, Storage, and Communications	7.44	8.53
Financial Intermediation	7.08	0.23
Real Estate, Renting, and Business Activities	1.15	0.41
Public Administration	12.29	0.40
Defense & Social Security		
Education	17.68	0.67
Health and Social Work	3.76	0.34
Other Community, Social and Personal Services	4.27	3.85
Private Households with Employed Persons	0.12	1.83
Others	0.08	0.00
Total	100.00	100.00

Source: ADB, 2009

7.3 Contribution to GDP: It has already been mentioned that adequate statistical data is not available in Bangladesh to appropriately measure the economic size of the informal sector in terms of value added as well as in terms of employment. Bangladesh Country Paper on Informal Sector and its Measurement presented during the inception workshop of RETA 6430: Measuring the Informal Sector hosted by ADB estimated that the wholesale and retail trade, which is largely an informal sector, contributes 12.4% to GDP. This is followed closely by the agriculture, hunting, and forestry sector, which contributes 11.8% to GDP. Together, these two sectors account for 67% of informal sector workers. On the formal sector side, they estimated the manufacturing sector with the biggest share to GDP at 12.5%, followed by education and public administration and

defense sectors with a combined share in GDP of 4.8%. These three sectors account for 58% of the workers in the formal sector. In total the contribution of the informal sector to GDB is roughly 64 percent which outweighs the contribution of the formal sector (roughly 36 percent). Estimates by industry are presented in Table -7.

Table- 7: A rough estimate of the size of informal sector as a percent of GDP

ISIC Sectors	Total share to GDP (%)	Share to GDP (%)	
		Formal	Informal
1 Agriculture			
a. Crop and horticulture	12%	0.18	11.82
b. Animal farming	2.88	0.58	2.30
c. Forest and related services	1.76	0.20	1.60
2. Fishing	4.73	0.70	4.03
Mining and quarrying	1.18	0.75	0.43
4. Manufacturing			
a. Large scale	12.47	12.47	0
b. Small scale	5.08	0.10	4.98
5. Electricity, gas and water supply			
a. Electricity	1.30	1.30	0
b. Gas	0.19	0.19	0
c. Water supply	0.09	0.09	0
6. Construction	9.15	2.75	6.41
7. Wholesale and retail trade.	14.24	1.42	12.42
8. Hotel and restaurants	0.69	0.48	0.21
9. Transport , storage and communication			
a. Land transport	6.50	4.25	2.25
b. Water transport	0.85	0.65	0.20
c. Air transport	0.11	0.11	0
d. Post and telecommunication	2.40	2.40	0
Financial intermediation			
a. Financial intermediation	1.31	1.31	0
b. Insurance	0.37	0.37	0
Real estate, renting and business Activities	7.64	0.46	7.18
Public Administration and defense	2.75	2.75	0
Education	2.54	2.06	0.48
Health and social works	2.29	1.95	0.34
Y Community, social and personal services	7.09	0.71	6.38
Total	100	36.91	63.59

Source: ADB, 2009.

We see that the contribution of the informal sector in the economy in terms of both output and employment is extremely large. Therefore, neglecting this sector is tantamount to neglecting the national economy. Given proper support and regulatory framework, the informal sectors could play more significant role in combating vast unemployment in Bangladesh. However, the informal sectors work under many constraints which limit its growth and productivity.

8.0 Problems facing the Informal Sector

The problems facing the informal sector in Bangladesh are numerous and diverse. Following is an attempt to explore some of the crucial ones.

Lack of Capital

Lack of capital is one of the major constraints faced by participants in the informal sector which gives rise to many other problems. Due to lack of working capital informal sector workers are forced to use hand-driven tools and outdated machinery, which keeps their productivity low. They cannot purchase raw materials in bulk at lower prices and take their goods to market, where they can sell their product at better prices. Since the productivity of informal workers is low, they can not save much of their income to reinvest in their business.

The informal sector workers suffer from lack of working capital because they have no access (or limited access) to institutional credit. A number of factors bar them from access to institutional credit including lack of awareness about formal credit, inability to fulfill the stringent collateral requirements and cumbersome and lengthy procedures that banks insist upon before granting credit. Moreover, commercial banks discourage small loans due to their high transaction costs (ESCAP 2006). Therefore, entrepreneurs in the informal sector are forced to borrow from informal money lenders at exorbitant rate of interest which lowers their income.

Lack of Education and skills

Education and skills training are important prerequisites for enhancing the productivity of workers of an enterprise. But the informal workers generally lack education and skills. Most of them grow in abject poverty and find it difficult to receive a formal education. They migrate from rural to urban area for livelihood and ultimately settle in informal sector.

They usually acquire skills through on-the-job training or a traditional apprenticeship system. The problem with these methods is that trainers

pass on obsolete skills from generation to generation (ESCAP 2006). Since informal workers are illiterate, they are not aware of the laws and regulations in the informal sector which makes them susceptible to harassment.

Lack of infrastructural facilities

Participants of informal workers suffer from lack of infrastructural facilities such as roads, electricity, storage facilities, water supply and public transport which dampen the productivity of this sector. They often use their houses as their work premises. Otherwise, their businesses may be located in public places, such as on streets or sidewalks, or in unregistered shops/workshops (ESCAP 2006).

Poor access to land and infrastructure limits the growth and productivity of informal sector. As the informal enterprises often lack legal property rights, they suffer from fear of eviction and feel discouraged to expand their business through investment in machinery and equipment. Lack of or poor access to electricity and market also bars the expansion of informal sector. As a result, informal enterprises are deprived of higher productivity and income.

Excessive Government Regulations

Every enterprise either formal or informal is to operate under certain regulations. Regulations essentially define the framework within which the enterprises conduct their business. There are land related regulations (land transactions, rental, tenure, etc), labor related regulations (labour mobility, working condition and environment, trade unions, closure of business and dismissal of workers, legal minimum wage and contributions to social security etc), and regulations regarding establishment and operation of business such as location, registration, licensing, bookkeeping, hours of operation, holidays, and tax obligation. In addition to these there may be regulations which intervene in the purchase of inputs, use of power, transport and marketing of outputs. Branch-specific regulations may exist too; in transport, operation of rickshaws and traffic regulations; in construction, building codes for example; in trade and restaurants, health and environmental regulations, etc. According to one study in India the micro enterprises even in small towns may be subjected to control by up to 35 different authorities /agencies from various parts of the government (IAMR 1992).

A vast majority of the units in this sector operates under semi-legal or illegal conditions in the sense that they do not comply with one or more existing regulations. Non compliance with the regulations may result in payment of a penalty in the form of a lump sum fee to the authorities or closure of business or confiscation of business assets in extreme cases. In many cases, government officials utilize these regulations to harass business owners (ESCAP 2006). The enterprises of formal sector can overcome this harassment using money and power. Since most of the informal workers are poor and illiterate and are not aware of the laws and regulations, they are susceptible to harassment.

Lack of Social Protection: The informal sector workers enjoy little social protection against illness, disability, unemployment, old age or the death of a main income earner. In fact, even the formal sector in most developing countries is unable to provide comprehensive social protection for its workers, as usually enjoyed in developed countries (ESCAP 2006). Social insurance schemes, such as health insurance, disability allowances or retirement benefits, are financed through a mix of taxation and contributions from employers and the formal workers themselves (Martha 2002). The implementation of social insurance schemes for the informal sector is very difficult because a large number of workers are self employed and their income is very low. Lack of social security leaves the informal workers susceptible to the unexpected incidents which hampers the growth of their business.

Lack of Organization: Participants of informal sector are not organized because this sector is a very varied and heterogeneous sector. Lack of organization leaves them vulnerable to excessive government regulation and harassment. They can not protest the harassment inflicted upon them by government officials or other quarters and put collective pressure on the government to realize their logical interests. They are also deprived of the benefits regarding credit facilities, training and marketing facilities that they could arrange under an organized body.

9.0 Reducing Unemployment through the Informal Sector

In Bangladesh, the contribution of informal sector to employment and output is very large. The informal sector is estimated to contribute about 87.71 % of total jobs and about 64% of total gross domestic products (GDP) (ADB 2009). However, income levels in the informal sector are generally low and the incidence of poverty high, but without this sector the poor would be driven into destitution. Poor people have to be engaged

in some work, either decent or indecent, to earn their living. Since employment opportunities in the formal sector are meager in Bangladesh, a large number of workers are forced to join the informal sector. The role of the informal sector in providing employment and income opportunities is very important in reducing the extent of poverty. Apart from full-time jobs, the informal sector provides part-time job opportunities for many, especially women, who can work from home and augment their family income. Under these circumstances, extent of unemployment in Bangladesh can be reduced by developing the informal sector. In this context, the following steps should be undertaken:

Ensuring access to institutional credit: The government should undertake steps to ensure the access of informal enterprises to institutional credit. Following the steps taken by Grameen Bank, the government can make arrangements for providing collateral free loan to the owners of informal enterprises through the nationalized commercial banks. It is not possible to cover all the informal enterprises under this facility since there are a large number of informal enterprises. The government can establish a selection criterion on the basis of amount of fixed investment, number of workers, location, prospect of products etc for administering such loan. In Bangladesh, corruption and bureaucratic hassles are the main hindrances to the success of all the government activities. In this case, any kind of corruption that may arise from any quarter must be prevented strictly. In addition, the processing of loan applications must be completed promptly without any bureaucratic hassles. Otherwise, this noble initiative of the government will end in smoke.

Providing education and skill: Education and training enhances the productivity of the workers of both formal and informal sector. Since workers of informal sector lack education and skill, providing only credit will not bring significant result for the development of informal enterprises. Training is necessary to ensure the productive use of resources. The government should arrange training program for the informal sector workers through the existing vocational institutions or establishing new ones. The content of such training should be consistent with the needs of the informal workers. In addition, the government should undertake special literacy program for the informal sector workers in order to make training more effective. Since it is a big arrangement, the government can involve BRAC (Bangladesh Rural Advancement Committee) and Grameen Bank in this noble initiative. BRAC and

Grameen Bank have network throughout the country and they will be able to discharge such responsibility very effectively.

Providing infrastructural facilities: To develop the informal sector, they must be provided land, electricity, water supply and communication. The government can arrange and develop, to the extent possible, several places where the informal enterprises will produce and sell their products. Government will provide electricity, water supply and communication facilities to these places. Such initiative is not impossible and the government can involve the non-governmental and voluntary organizations in this venture. In this case, the government can follow the strategy of "Clustering" which refers to bringing together small firms in the same or related industries in a specific physical location and providing them with the necessary infrastructure and services (ILO 2005). Thailand's famous slogan 'One Tambon One Product' (OTOP) initiated in 2001 is an example of successful clustering. The OTOP encourages village communities to produce and market unique products and handicrafts from locally available materials, utilizing local wisdom and skills handed down from generation to generation. The project provides rural communities with the opportunity to develop distinctive products for both domestic and international markets with technical and managerial assistance from the Government (ESCAP 2006).

Since informal sector is characterized with heterogeneity, all the informal enterprises can not be brought under this arrangement. Therefore, the government should provide, in suitable cases, the property rights to the informal enterprises. Such arrangement will encourage the informal entrepreneurs to improve their business without fear of eviction.

Organizing informal sector producers and workers: The informal business owners should be organized under cooperatives in order to protect them from harassment and improve their productivity. The main obstacle to the formation of association is the heterogeneity of the informal sector. However, the informal enterprises producing similar goods and facing similar problems can form associations or self-help group to protect and promote their interest.

Such organizations can facilitate credit for informal enterprises, arrange training for informal sector workers, and assist in introducing modern technologies and in dealing with harassment from regulatory authorities. They can also exert collective pressure on the Government to remove unnecessary regulations and to design favorable policies for the benefit of

this sector. Governments should encourage and facilitate the formation of such groups and associations by directing assistance, such as credit and training, through them. NGOs also can contribute to the formation and efficient running of such groups.

Enhancing awareness of the informal sector participants: Workers of informal sector are generally illiterate or little educated. They are not aware of the laws and regulations which leave them susceptible to the harassment. Therefore, government should publicize the information about regulations and laws through electronic media and local government authorities. At the same time, government officials should be directed to co-operate the participants of informal sector in all possible ways.

Extending social protection: Extending social protection to the participants of informal workers is difficult because most of them are self-employed and their income is very low. However, some developing countries have set up examples to provide social protection to designated categories of informal workers. The Philippines has a law concerning domestic help which specifies the minimum wage level and requires employers to provide employees with proper working conditions (Alonzo 2006). In India, the State of Kerala introduced an agricultural workers' pension scheme in 1980. By the early 1990s, this scheme was providing a modest pension for a large number of agricultural workers who were above 60 years of age and had incomes below the stipulated poverty line (Ishengoma and Kappel 2006).

The integrated social security scheme of the Self-Employed Women's Association, which started in 1991, is the largest comprehensive contributory scheme for informal workers in India. The scheme includes health insurance, life insurance and asset insurance (ESCAP 2006). Following these steps, Bangladesh can provide some social protection to the informal workers considering the contribution of this sector in the national economy.

10.0 Conclusion

The widespread unemployment in Bangladesh can not be reduced by creation of jobs in the formal sector only. The share of formal sector employment to total employment is only 12.29 percent. The creation of jobs in the formal sector is difficult for Bangladesh because the process of industrialization is very slow. Investment is the key to

industrialization. But in Bangladesh, both domestic and foreign Investment is very low. The foreign direct investment is also showing decreasing trend. Another thing to be considered is that creation of jobs in the formal sector will not absorb all the unemployed people because formal sector jobs are white-collar jobs and those are mainly selected for educated people. The illiterate, poor, unskilled, disabled and old-aged people have no option but to find a work for their livelihood in the informal sector. The importance of the informal economy is evident from the fact that its contribution to total employment is nearly 88 percent and to GDP is 64 percent. This means, the informal sector is providing livelihood to the majority of the people. However, the informal sector is a neglected sector of the country. Therefore, time has come to realize the importance of the informal or unorganized sector and take necessary steps to develop this sector. The sector has been facing diverse and numerous problems for long. The major problems include lack of access to institutional credit, lack of infrastructural facilities, lack of education and skill, excessive government regulation, lack of awareness about government regulation, lack of organization and lack of social protection. The government should remove these obstacles in line with the steps suggested above to create work opportunities for millions of poor, illiterate and unskilled people in this sector. Otherwise, it would be difficult for the government to rein in the growing unemployment in the country.

References:

- ADB 2009. Informal Employment in Bangladesh, ADB Economics Working Paper Series, No 155, ADB, Manila.
- Akintoye, I.R 2008. "Reducing unemployment through the informal sector: A case study of Nigeria", in European Journal of Economics, Finance and Administrative Sciences, Issue 11, 2008.
- Alonzo, R. 1991. "The informal sector in the Philippines" in Niels-Hugo Blunch, Sudharshan Canagarajah and Dhushyanth Raju, The informal sector revisited: A synthesis across space and time, Social Protection Discussion Paper Series, No.0119, World Bank, 2001.
- Bangladesh Bureau of Statistics (BBS) 2008. Report of Labor Force Survey, 2005-2006, Ministry of Planning, Government of Bangladesh, Dhaka.
- Becker, Kristina Flodman 2004: The informal economy, SIDA fact finding study.
- Charmes, J. 2000. "The contribution of informal sector to GDP in developing countries: Assessment, estimates, methods, orientations for the future" in Niels-Hugo Blunch, Sudharshan Canagarajah and Dhushyanth Raju, The informal sector revisited: A synthesis across space and time, Social Protection Discussion Paper, No.0119, World Bank, 2001.
- Chen, Marty 2002. Rethinking the informal economy: From enterprise characteristics to employment relations, paper presented at the conference "Rethinking informalization in labor markets", Cornell University, October 2002.
- Chen, Martha A., Renana Jhabvala and Frances Lund 2002. Supporting workers in the informal economy: A policy framework, Employment Sector, International Labor Organization, Geneva, Working Paper No. 2, 2002.
- Chen, M., J. Vanek, and Heintz. J. 2006. "Informality, gender and poverty: A global picture." in ADB, Informal Employment in Bangladesh, ADB Economics Working Paper Series, No 155, ADB, 2009.

- Davies, R 1978: *The Informal sector: Solution to unemployment*. London Catholic Institute for International Relations.
- Dornbush, Rudiger and Fischer, Stanley 1994: *Macroeconomics*, Sixth edition, McGraw-Hill Inc, USA, PP. 516-517.
- ESCAP 2006. *Role of the informal sector in poverty reduction*, (E/ESCAP/CPR (3)/1, 2006.
- Esther K. Ishengoma and Robert T. Kappel 2006. "Economic growth and poverty: does formalization of informal enterprises matter?" in ESCAP, *Role of the informal sector in poverty reduction* (E/ESCAP/CPR(3)/1, 2006.
- Farrell, D 2004. "The hidden dangers of the informal economy" in *The McKinsey Quarterly*, No.3, pp.26-37.
- Government of Bangladesh (GOB) 2009. *Bangladesh Economic Review 2008 (English Version)*, Ministry of Finance, Government of Bangladesh, Dhaka.
- Hart, Keith. 1973. "Informal income opportunities and urban employment in Ghana." in *The Journal of Modern African Studies* Vol. 11, Issue.1, pp. 61-89.
- Husmanns, R. 2004. "Defining and measuring informal employment" in ADB, *Informal Employment in Bangladesh*, ADB Economics Working Paper Series, No 155, ADB, 2009
- IAMR 1992. *Employment in the informal sector: A study of selected towns*, Institute of Applied Manpower Research (IAMR), New Delhi.
- ILO 1972. *Employment, incomes, and equity: A Strategy for increasing productive employment in Kenya*. Geneva.
- 1992: *The Urban informal sector in Asia: An annotated bibliography*, Geneva
2005. "Does productivity help or harm employment growth?" in ESCAP, *Role of the informal sector in poverty reduction* (E/ESCAP/CPR(3)/1, 2006.
- ILO and CPD (Centre for Policy Dialogue), 2007. *Impact of Trade Liberalization on Employment in Bangladesh*, a joint study by CPD and ILO, 2007.

Jhingan, M L 1989. The economics of development and planning, 22nd edition, Konark Publishers Pvt Ltd, Delhi, PP.775-778.

Mehta, Meera 1985. "Urban informal sector: concepts, Indian evidence and policy implications", in Economic and Political Weekly, Vol.XX, No.8, Feb. 23, 1985.

Rahman, Md. Habibur, Younus, Sayera and Hossain, Md Shakawat 2008. Recent employment situation and labor market developments in Bangladesh, Policy Paper: 0807, Policy analysis unit, Bangladesh Bank, Dhaka, 2008.