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Transitioning the workforce from informal to formal sector: A ground study of Bangladesh

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Abstract

In Bangladesh 57% of Gross Domestic Product (GDP) is generating from the formal sector where only 13% workforce is working here. But rest 43% of total GDP is coming from the informal sector where 87% of our total workforces are engaged there. Therefore, it is very clear that workforce working in the informal sector is very much less productive than the formal sector. Therefore, it is an absolute need for the economy to transit the workforce from informal to the formal sector for higher productivity and GDP growth. The study focused on this issue and tried to find out why employment in the formal sector is not sufficient in Bangladesh. To discover the actual fact, data was collected from the targeted sample size as per the designed questionnaire. Through frequency analysis, significant factors of insufficient employment were found and on the basis of those factors, the article put the future directions for the academics, business community as well as the policy makers of Bangladesh to take necessary arrangement to transit the large informal workforce to the formal industry of Bangladesh.

Keywords: Formal Sector; Informal Sector; Workforce; Transition

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1. Introduction

In 2014 International Labor Conference (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; "If substantial progress towards the transition from the informal to the formal economy is not made, our efforts to achieve inclusive and sustainable development will never succeed" (Seafield, V.).

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).

1.1. Employment situation of Bangladesh

Table 1. Sector wise formal and informal employment

Sector	Total	Employee formal	Employee Informal	OAW	Supportive	Employer
Agriculture	25757	470	6861	8121	10291	15
Non Agriculture	27634	5447	10284	8853	2979	71
Total	53391	5917	17144	16974	13269	86

Source: Bangladesh Labor Force Survey 2010

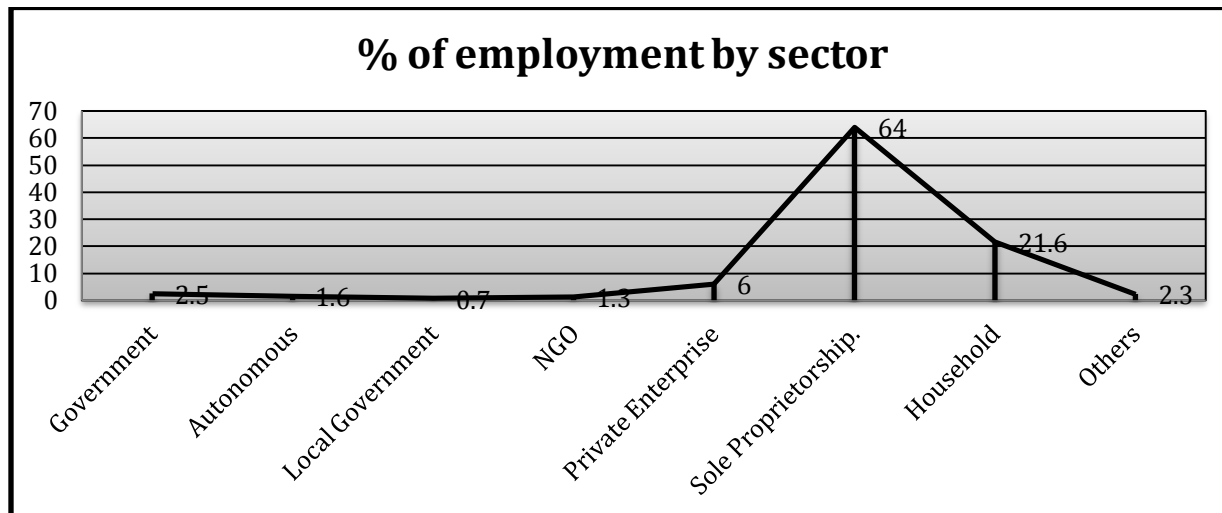


Figure 1. Employment by sector (Source: Created by author as per Bangladesh Labor Force Survey 2010)

In the case of sectors, industries, and employment, Table 1 pointed out that a large portion of the informal workforce is mainly working as only supportive and own account workers (own trades) in both agricultural and non-agricultural sectors. Besides non-agriculture sector bears a large number of informal workers mainly in mining, transportation and construction (Bangladesh Labor Force Survey, 2010). Single-

proprietorship was the most common type of enterprise doesn't have the legal status, written accounts or bookkeeping (Asian Development Bank, 2010). From Table 1 we can see that 64% of total employment is generated by sole proprietorship sector who are own account worker. Household sector employs 22%. Therefore, these two sectors comprise 88% total employment of the country. Which are mostly informal jobs. The data shows that the formal private sector is not still explored.

1.2. Why formal employment is needed for Bangladesh

3.1. GDP & Sectors Contribution: In Bangladesh 57% of GDP is generating from the formal sector where only 13% workforce is working here (Bangladesh Labor Force Survey, 2010). But rest 43% of total GDP is coming from the informal sector where 87% of our total workforces are engaged there. Therefore, it is very clear that workforce working in the informal sector is very much less productive than the formal sector. Therefore, it is an economic need for the transition of workforce from informal economy to the formal economy for higher productivity and GDP growth.

1.2.1. Level of Income: In Bangladesh, some informal workers are earning more than a worker in the formal sector

Table 2. Monthly income of the workforce from formal & informal sector

Worker	Agriculture formal	Agriculture informal	Non Agriculture formal	Non Agriculture informal
Employee	2535	1354	2320	1710
Employer	3322	1042	5497	3080
OAW	1516	1584	4339	1863

Source: Asian Development Bank, 2010

Asian development Bank survey in 2010 presented that employees, employer and private owners working in the formal sector are enjoying much higher monthly income than informal employees. These data gives us a clear message to the importance of formal sector where better income is prevailing. Therefore, transition towards the formality is the demand of life.

1.2.2. Social benefit of workers from formal & informal sector

People who are working in the formal sector are enjoying more social, economic and legal protection of sick leave, paid leave, pension, bonus, maternity leave and other subsidies, which an informal worker cannot enjoy.

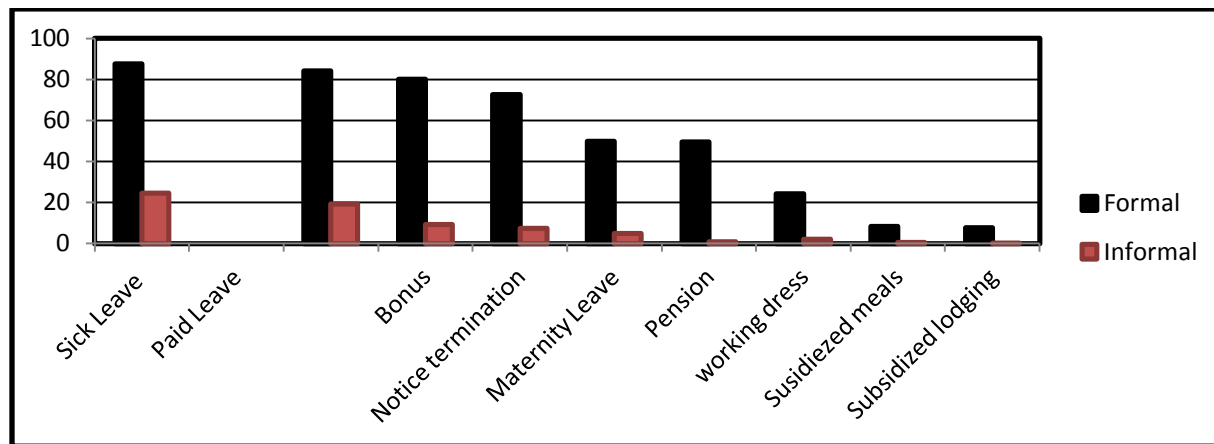


Figure 2. Social benefit of workers from formal & informal sector (Source: Asian Development Bank, 2010)

The graph shows that in Bangladesh formal workers are having much better facilities of social and economic protection compared to informal workforce. As a result, transition; the workforce from informal to the formal economy will enrich the living standard and social security of Bangladesh, no doubt.

1.3. Objective of the research

The objectives of the study are as follows:

- To find out the ways to transit the workforce from informal to formal sector of Bangladesh with empirical and graphical frequency analysis.
- Put the recommendations to the policy makers to take steps for the transition from informal to formal sector in future.

1.4. Method of analysis

Methods of Analysis and Steps to find out the result included:

- Likart Scale structured questionnaire will be used for field survey to find out how workforce can transit from informal to formal sector of Bangladesh.
- Then there will be frequency test analysis on the collected data to find out the significant factors to transit the labor force towards the formal sector of the country
- Put the overall recommendations on each finding for future policy makers.

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. Questionnaire and structured questionnaire were used for data collection. The employed questionnaire types included 5 point Likert scale as 1. Strongly disagree/extremely negative, 5: strongly agree/extremely positive. The research

aimed to answer the following question: How can we transit the workforce from informal sector to the formal sector of Bangladesh?

1.5. Literature review

In Bangladesh, one of the main challenges is to create enough employment opportunities. Because the working aged population has grown at a rate of more than 2 million per year over the past two decades and is expected to grow at a rate of 2.2 million per year over the next decade. But formal job creation has averaged only 200,000 per year in the past ten years (International Labor Organization Bangladesh, 2013). Though there are a lot of debates on the features of informal sector, but supporting and improving jobs are increasingly recognized as a great solution to promoting growth and reducing poverty (Chen, 2007). On the other hand policy makers' are tended to over-react to the informal economy, trying to discourage it altogether treating it as a social problem or to promote it as a solution to economic stagnation (Chen, 2007).

International Labor Organization Report 2010, 'Transitioning from informal to formality' mentioned 'quality employment generation' as the number one indicator of the transformation from informal to the formal economy. The report described that the cause of the informal economy is the inability to create sufficient numbers of formal jobs to absorb new entrants to the labor market and provide employment opportunities for those who are trapped in the informal economy. Graduates are frustrated with the burden of education as there are concurrent occurrences of joblessness (Unnayan Onnessa, 2013). Within the informal sector there is always the risk that non-wage cost cuts such as a cramped workspace or insufficient electricity are borne by the worker. Indeed, these risks can lead to the rejection of goods and delayed payment of already low wages (Dasgupta 2016). Policy-makers should not fall into a lexical trap of imagining that implementing some or even all of the policies we examine will be sufficient in order to deliver full formalization, which we continue to recognize as the gold standard in terms of both social and economic outcomes (Stuart et al., 2018).

Rapid growth in the labor force may present a critical development challenge for Bangladesh. In that situation, creating productive employment opportunities will be imperative for sustained economic growth as well as poverty reduction in Bangladesh (Unnayan Onnessa, 2013). International Labor Organization (2013) report on Bangladesh mentioned some problems to be addressed to create the jobs in the formal sectors, including:

- Incentives for infrastructure and productive capital investment and uninvestive for non-productive capital is needed for employment creation in various sectors.
- Excessive concentration in one sector that is RMG and promote capital and skilled intensive industry.
- Technical progress and investment in the agricultural sector.
- Very less access to electric power supply
- Infrastructure bottlenecks
- Lack of government fund for infrastructure and social protection

All the above study and earlier literature has given the opinions on the crises of employment opportunities and raised the negative effects of the large informal sector of Bangladesh. Moreover, those study also highlighted the current employment market with various facts and findings. At the same time the researchers also gave some direction for future implication to create efficient manpower and infrastructure for employment generation. But no study has given the proper emphasis to find out the solution to transit the workforce from informal to formal sector of Bangladesh through field survey and data analysis.

2. Data analysis

Data were collected from 200 samples from different target groups. Among them Employees were 110, Private Owners were 30, number of Business Leaders were 20, Academic experts were 20 and the number of Government officials were 20. Each of the respondents was given likart scale structured questionnaire to find out how Bangladesh can transit its workforce towards the formal sector for better future.

Indicators of the questionnaire: A questionnaire was developed based on the early study of the author. It was 5-point likart scale questionnaire and there were 31 questions for the respondents. The indicators of questionnaire are as follows:

- More big and domestic industries
- Higher domestic saving and investment.
- Diversified export industries
- Decrease Import Dependency
- Increase FDI Inflow
- Stopping Donation and bribes in education
- Ensure quality teachers
- Adequate education facilities
- Ensure Market driven curriculum
- Effective government policy
- Proper evaluation of merit
- Increase of research
- Increase government fund
- Developing professional education
- Stop dirty student politics
- Create linkage between TIVET and industry
- Ensure of certification in TVE
- Increase language efficiency
- Developing awareness in skills
- Develop government policy on TVE.
- Decrease corporate tax

- Decreasing personal tax
- Less initial government cost
- Justified salary level
- Eliminate complicated process
- Transparent recruitment process
- Eliminate Quota system and merit devaluation
- Restrict political involvement in business
- Decrease number of Political workers
- Strict against the illegal Business
- Stop political back to drug and smuggling

2.1. Demographic analysis

Gender: In the 200-sample size, the study has gone through the male and female respondents. Among them 75% were male and rest 25% were female, which seems the less representation of female participation. Though the study has no intention on gender biasness rather it has collected data based on the availability of the respondents.

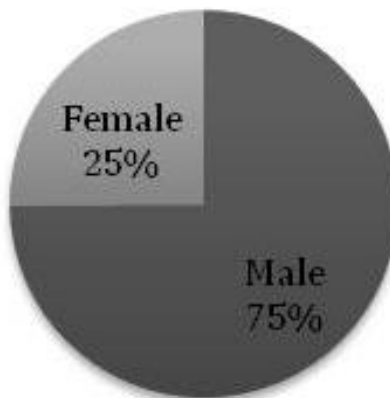


Figure 3. Gender of the respondents

Education level: The education level of the sample size has been segregated into eight categories, which also represents the diversity of respondent groups as per their knowledge and activity. The study picked the different respondents groups who belong to several working classes also represent the voice of each groups. The chart shows that the respondent groups are significantly educated in aspect of Bangladesh.

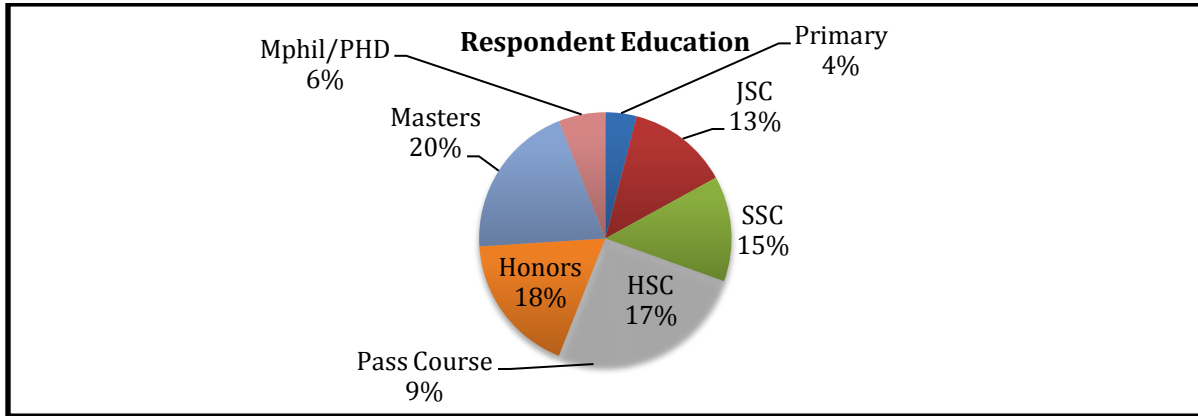


Figure 4. Education of the respondents

Sector of Work: The study found out the working ground of the respondents. This is an important indicator of the evaluation of the opinion of respondents as it ensured the proper representation of both formal and informal groups. As a result, the study can find a true scenario as per the practical experience of the respondents from different work environments.

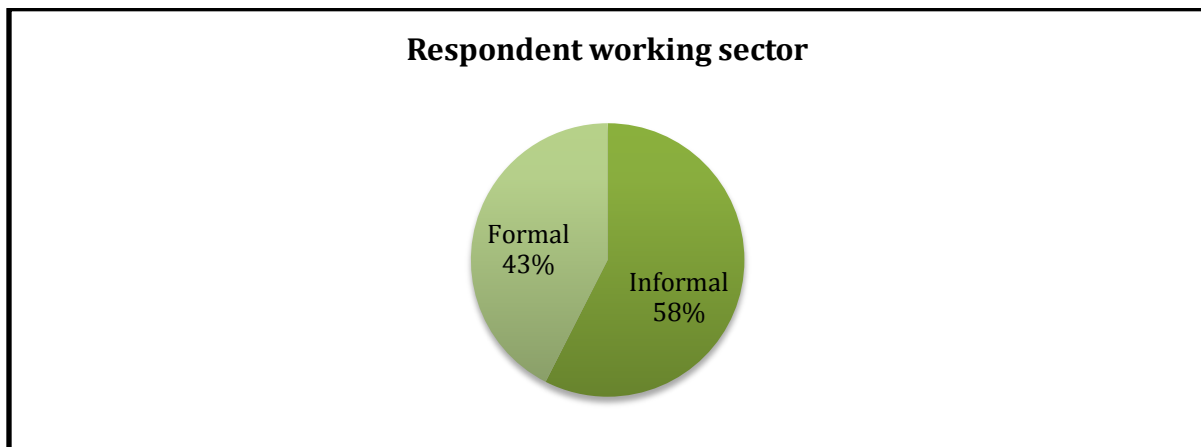


Figure 5. Working sector of the respondents

2.2. Data analysis

After the collection of data from the respondents, those were sorted and put down into the SPSS datasheet. Then the data were analyzed to find out the frequency of respondents and mean value of each indicator.

2.3. Data significance

The study did the field survey and based on that the respondents replied their opinion on 5-point likert scale. In the analysis 200 respondents put their opinion on 30 different indicators through which transition from informal to formal sector can be possible. Different respondent has given their different opinion on each of the indicators. Therefore, all of the indicators are not significant to transit the workforce from informal to formal sector. The study set an standard by its own. If at least 70% of the respondents are agree and strongly agree to a particular indicator will be treated as a significant indicator for the transition of workforce.

2.4. Analysis and findings

The research has find out the overall result of different respondent groups based on their opinions as per their social standard. It is a different dimension of the study to look into the fact from the different angels. However based on the collected data through likert scale questionnaire on 31 indicators, the study got the feedbacks from the respondents and their responses were put in the SPSS software to find out the frequencies of respondents on each indicator. The frequencies were fallen within the scale of strongly agree to strongly disagree. As the study earlier mentioned that any indicator will be considered as significant if at least 70% of the respondents is strongly agree and agree on a particular point. The following chat represents the respondent's opinion to transit the workforce from informal to formal sector:

In the above graph we can see that 5 different colors are representing the 5 different range of frequencies. More respondents are strongly agree in some indicators like more big and domestic industries, diversified export industries, decrease import dependency, increase FDI inflow, stop donation and bribes in education, proper evaluation of merit and create linkage between Technical and vocational education and concern job industries. The study gave the importance of respondent opinion not only on strongly agree but also counted agree as the positive opinion. As a result it is seen that some indicators has very positive responses which is at least 70% agreed, can transit the workforce form informal to formal sector.

Based on above analysis we can find that the following indicators are more significant for the transition of labor force towards the formal sector:

- More domestic and big industries
- Diversified export industries
- Decrease Import dependency
- Increase FDI inflow
- Stopping donation and bribes in education
- Effective government policy in TVET
- Proper evaluation of merit through fair recruitment and eliminate quota
- Stop dirty student politics
- Create linkage between TVE and Industry
- Eliminate complicated business process

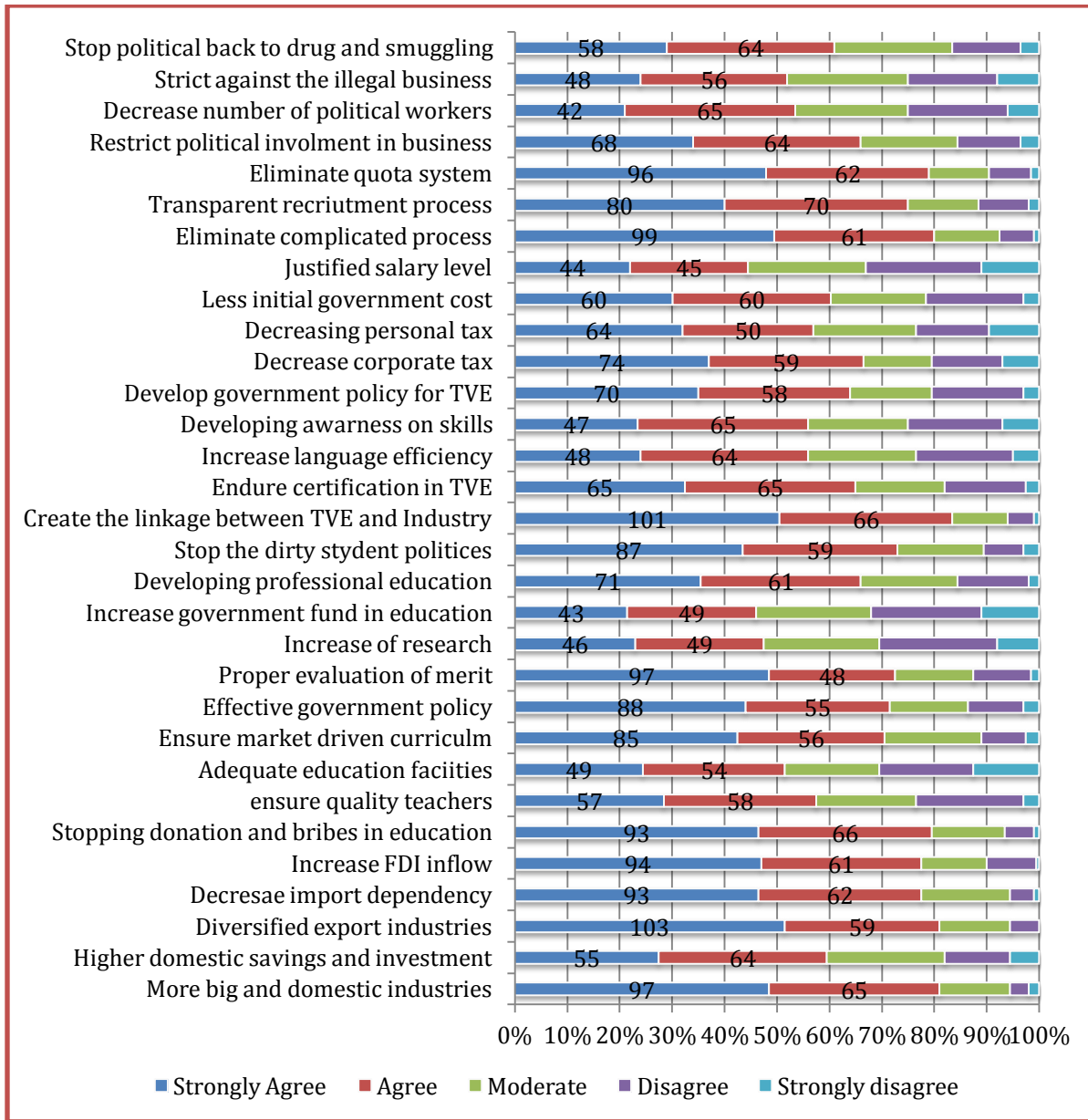


Figure 5. Results of the analysis

3. Recommendations

On the basis of those issues and findings, the research puts the suggestions to increase the employment in the formal sector as the recommendations to the policy makers and the related stakeholders to formulate the restructure of the employment sector of Bangladesh.

- I. More domestic and big industries: Bangladesh has very few numbers of large and medium sized industries where only 6% workforces are employed. Around 64% and 22% of total employments

are engaged respectively in sole proprietorship and household work. Therefore, government should come up with labor-intensive industrial development approach. Government should formulate the export-oriented industrial policy for the industrialization of potential heavy industries like automobile, motorcycle, leather and leather goods, pharmaceuticals, shipbuilding, electronics and software, Agro based firms and industries.

- II. Diversified export industries: Government support is essential to develop the industries. Land selection, communication development, and utility supplies are the primary need for plant. Emphasis should be given to infrastructure, utility, transportation facilities development. Some neighboring countries like India, Vietnam, Malaysia, Thailand has developed their industries through the massive growth of infrastructure and investment in the utility sector mainly power sector.
- III. Decrease import dependency: Lack of services and financial exploitation by owners, management and the doctors, the public and private health sector pushed many patients to go to India, Thailand, and Singapore to take better treatment. If the country can ensure better medical services, treatment and enforce the laws to stop illegal activities related to health sector, then the sector will be bigger, formal and will create a lot of formal employment opportunities. Similarly agriculture, garment other sector can follow the same movement.
- IV. Through the sustainable inflow of FDI: Inadequate Infrastructure facilities are one of the biggest problems to attract the foreign direct investment in Bangladesh. Therefore, the country needs a sustainable communication policy plan. Rail connectivity should be developed.
- V. Stopping donation & bribes in education: Donation and bribes become alarming diseases in the education sector of Bangladesh. Therefore, it is an urgent urge to the government to stop donation and bribes in the education system so that students can build up themselves with a decent manner for a decent employment.
- VI. Effective government policy in TVE: In Bangladesh the current TVE policy is not planned and effective. Government can go for a comprehensive TVE policy which can be implemented and accepted without complicity.
- VII. Proper evaluation of merit through fair recruitment and eliminate quota: At present recruitment process has become very unfair and biased on politics and nepotism. In the government recruitment there is 55% quota prevails which discourage the general meritorious students to go for jobs in the public sector. Fair recruitment and merit valuation will encourage the young generation to go for more formal employment.
- VIII. Stop dirty student politics: Student politics in Bangladesh drives many young people to work as political worker. They engaged themselves in many informal and unhealthy businesses. Therefore, the political parties specially the ruling parties should control student dirty politics.
- IX. Create linkage between TVE and Industry: In Bangladesh many TVE organs are working to educate the young people. But those are not well connected with the relevant industries.

Therefore, government as well as business community should work together to increase this connectivity for formal employment.

- X. Eliminate complicated business process: Regulatory system of Bangladesh is very much complicated and time-consuming compared to others nations. There should arrange the special approval system within a short period of time like neighboring countries to attract FDI.

4. Conclusion

In any economy whether it is developed, least developed or welfare state, cannot possible to demolish the whole informal sector because some sector is always informal in terms of nature and history. Some informal employment like individual family farming, making some traditional staffs, street vendors etc will always exist. Therefore, the objective of the research is not to transit all informal sectors to formal sectors. In case of Bangladesh the range of the informal sector is very widened where the workforce is facing a lot of discrimination, social insecurity, vulnerability and indecent life along with unemployment, underemployment and injustice in the society.

Therefore, it is important for the country to take necessary steps to increase the workforce in the formal economy. The recommendations of this research paper can guide the policy makers of public and private sectors to achieve the goal. Then Bangladesh will be able to ensure a better future for the upcoming generation where there will be a better employment opportunities and decent life.

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