

INFO BRIEF
INFORMAL SECTOR OF BANGLADESH

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Introduction

Informal sector is a very significant area of the economy and employment in Bangladesh particularly for the less skilled people, living both in urban and rural areas. The absence of rights and social protection of the workers is the major drawback involved in it. There are several ways of approaching or defining the informal sector which is mainly made up of micro and small enterprises. The major occupations are street vendors, wage labourers working in small enterprises on a regular, casual or contract basis; unpaid workers including family workers and apprentices, home-workers, paid domestic workers, day labor in agriculture, day labor in non-agriculture, self-employed in agriculture, self-employed in non-agriculture, unpaid family worker, casual/irregular paid worker, domestic worker in private house and a smaller number of owners of tiny enterprises. Informal workers are less likely to receive pension, social protection, and a notice of termination compared to formal workers; Common places of informal work are in farms, markets, bazaar stalls and trade fairs. Self-employed workers were most likely in single regardless of legal status. These activities are usually conducted without proper recognition from the authorities. Labour market in Bangladesh constitutes of three types of market: formal, rural informal and urban informal. The formal market is operated under the legal framework that follows the presence of contractual employment relationships, labour laws and regulations and unions. Protective labour regulations and unions do not cover the informal sectors, which dominate the labour market in Bangladesh. Workers under informal employment arrangements or those working in informal enterprises are more vulnerable to economic and social shocks.

Key Statistics

Based on a labor force survey conducted in 2010, informal employment in Bangladesh is estimated at about 89% of the total number of jobs in the labor market. It is more prevalent in the rural areas than in urban areas. Women are also more likely to be under informal employment arrangements. The informal sector accounted for more than 40% of the total gross value added of Bangladesh in 2010, with the highest contributions in agriculture, fishery, trade, and industries where capitalization is relatively lower.

Employment by sector (million)

	2002-03	2005-06	2010
Formal sector			
Total	9.2	10.2	6.8
Male	7.3	8.6	5.5
Female	2.0	1.6	1.3
Informal sector			
Total	35.1	37.2	47.3
Male	27.2	27.5	32.4
Female	7.9	9.7	14.9

According to the Bangladesh Bureau of Statistics (BBS) in its Labour Force Survey of 2010, as much as 87.2 percent of the country's work force (employed persons aged 15 years or above) are engaged in the informal sector. Nearly 51 percent has no schooling and only a small fraction, 0.4 percent, has received vocational/technical/skills development training. There are more than 48 million informal jobs in Bangladesh. There is greater gender balance in the informal economy than in the formal sector. Only about 30 percent of the labour force works under the legal formal labour market framework. On the other hand, protective labour regulations and unions do not cover the informal sectors, which dominate the labour market in Bangladesh.

Skill development in the informal sector

Skills development in the informal sector is an issue of massive importance. It concerns almost all of the economy of sub economic development. It will be necessary to develop technical and vocational skills for this group of young people, as well as for the economic and professional stakeholders in this sector, that can help them further develop their own activity. Skills development in the informal sector is becoming a concern outside the sector itself and is an integral part of the development of an overall education and training strategy. Informal apprenticeship has better external efficiency even though it costs approximately three times less than formal training courses. Skills development in the informal sector means focusing on the needs of the real economy of micro- and small enterprises, investment in capacity building in this sector is a demand of necessity. Majority of stakeholders within informal sector seek better training and improved skills to give a bigger boost to their own activity and thus improve their professional and social position. Without their success it will not be possible to ensure the sustainable development of the country. In Bangladesh only 2-3% of the labour force is

vocationally trained, and only 5 per cent possess any type of marketable skills, it becomes essential for the Government to exploit all resources to skill new entrants into the labour force. The Skill Development Initiative, adopted as a mission for enhancing skills improvement capacity in the informal sector, is a challenging task. There is over six million children out-of-school in Bangladesh who have either dropped out or never enrolled in school. Most of these children are engaged in informal employment, as unskilled labour, involved in hazardous or non-hazardous, paid or unpaid work. These children, especially from the large urban slums have now an opportunity to not only complete a course in non-formal basic education but also stream into training on livelihood skills.

Projects and Key Actors

Informal skills development is basically outside the scope of government schemes and programmes. A large number of NGOs- both large and small – continued to carry out their mission of skilling young people, especially the marginalised and disadvantaged, this contribution was not recognized properly by the Government. The private sector employs many such informally trained young people. International aid and grants have been available to many of these NGOs. Prominent development partners like the European Union, Canada, SDC, GIZ, Sweden, UNICEF, World Bank and Asian Development Bank assist some of these endeavours. About 2000 urban working children with minimum education level (average Grade 3 level of primary education) have completed their six months informal apprenticeship course under a program of UNICEF. More than 90% of the graduate children have been placed in either wage or employment or started their own small businesses.

Close linkage with the labor market is a vital economic requirement for a training system. Labor market demands are dynamic in nature and they change frequently. These changes have to be detected and factored into the skills training. Enterprise-based skills training for instance, creates a built-in mechanism to provide training in accordance with labour market trends. The Directorate of Technical Education (DTE) and BTEB are adopting some model towards skill training delivery options for the disadvantaged, particularly for the working children. It is expected that this model will be institutionalized through government run vocational training centers in near future.

Supervised informal apprenticeship model has been designed to deliver livelihood skills training to out of school children with low level of educational qualification (depending on trade). This innovative intervention ensures that 14+ years aged urban working children have the opportunity to acquire competency based skills under a trade based Master Crafts Person (MCP) who is based in a local market.

In addition to cater to the demand for skill shifts in response to changes in economic regime and management the world over, the process of skill formation for informal sector is further challenged by inadequate capacity of the formal sector institutions and non-affordability of formal training by those who want to acquire skills. The traditional system is further restrained by its inability to reach the disadvantaged who mostly compose the informal sector and to reduce discrimination in access to training and education, failing their employability in the competitive labour markets in the new economic order.

Formal work environment in Bangladesh is undergoing a process of rapid transformation in the context of globalisation and technological change, leaving the majority of the workforce in the informal sector, composed of non-farm or off-farm rural subsistence activities and of work in family-run, urban micro-enterprises. The informalisation of the labour market with concurrent changes in the concept of employability risks exclusion from employment for those without appropriate skills. The rapid expansion of informal sector is a resultant of the inability of the formal sector to generate adequate employment opportunities. In Bangladesh, the labour force is growing much faster than employment opportunities in the formal sector, and therefore, the problems of rising unemployment and underemployment remain high on the development agenda. Although the informal and modern economic sectors are closely interdependent and have many forward and backward linkages, the organised sector in Bangladesh has never provided a very large employment base. The formal sector employment has hardly grown in recent years. Most of the additional jobs which have accrued in the economy in recent years have been in the informal sector. The changing concept of employability requires an innovative approach to education, training and skill development for the informal sector. One of the principal development challenges for Bangladesh is the creation of employment for new entrants into the labour force and a great many who are currently underemployed.

Issues and Challenges

One of the principal development challenges for Bangladesh is the creation of employment for new entrants into the labour force which is growing, at almost twice the rate of population growth. The provision of education, training and skills development of the labour force can increase the labour productivity; economic growth and the increase of wages of the labours are inter-linked to each other. The present state of the informal sector in Bangladesh highly demands education, training and skills for decent work in the informal sector. The urban informal sector also shows lower productivity. A labour force with low levels of education and skills has obviously been one of the principle causes of low productivity in most sectors including the urban informal sector.

Comprehensive, detailed, and up-to-date economy are needed to paint a clearer image of the state mechanisms and the circumstances of the informal enterprises since the informal economy has become a growing concern in Bangladesh. Data on the following issues should have been determined for policy planning on best utilization of the informal sector: (i) the number employed in the informal sector, (ii) the prevalence of workers in the informal sector compared with the formal sector, (iii) socio-economic profile of the workers engaged in the informal sector and (iv) present skill & skill needs to develop them as formal sector. There has been a rapid informalisation of the labour market due to depressed level of employment, increased job insecurity and displacement, growing risk of exclusion from employment for those without appropriate skills, highlighting the urgency of continuous acquisition of skills through training and education. The parallel changes in the concept of employability in an increasingly complex and uncertain labour market warrants modifications in job content, skill requirements and knowledge. The government policy, arguably, has not paid adequate attention to the informal sector the informal sector has become a living reality adopting the vast segment of the labour force. It is of utmost importance that national policy on labour should plan for informal sector which is emerging as a growing and also seen as a productive source of employment.

The government is considering announcing a common minimum wage for the workers in the country's informal sectors to protect their rights under the Labour Act. Agriculture, fisheries, trade, tourism, small-scale manufacturing, real estate and other business activities are the main sectors employing informal workers.