

DIGITISATION AND INCLUSIVITY: TAKING EVERYONE ALONG

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20



Informal economy and economic inclusion

Policy options for Bangladesh



MUSTAFA K MUJERI

The definitions vary globally, but essentially the informal economy means economic consists of activity that takes place outside the formally regulated structures. Typically, informal economic enterprises are small, often based around households. These usually do not pay taxes, nor do they enjoy social protection. While their activities are not necessarily illegal, they are not covered by the framework of national laws in the country.

Importantly, there is not always a clear divide between formal and informal economies; for example, sometimes people may work cash in hand for formal, registered businesses. So defining informal economic activity can be difficult. And if the informal economy is hard to define, it is even harder to measure. But we do know that it is very big, especially in Bangladesh. According to BBS Economic Census 2013, out of a total of 7.82 million enterprises in the country, 7.81 million (99.8 percent) are small and micro (including cottage) enterprises, most of which belong to the informal economy. In Bangladesh, the informal economy plays an important role both in employment generation and in production and distribution of goods and services. The informal sector activities are mostly small in size and

transient in nature.

For the labour market, informal employment is a job-based concept and encompasses those jobs that generally lack basic social or legal protections or employment benefits. The operational definition adopted by the BBS for informal employment is a combination of both the informal character of the individual job and employment in the informal sector. According to the

i.e., highly educated persons are more likely to be in formal rather than in informal employment. It is seen that nearly half of those who are engaged in informal employment have no schooling while only a small fraction (less than 0.5 percent) has received any vocational/technical/skills development training. Further, protective labour regulations and unions do not cover informal sector employment.

ALTERNATIVE VIEWS ON INFORMAL LABOUR MARKET

There is an ongoing debate on whether informal sector employment is a result of competitive market forces or labour market segmentation. More recently, it has been argued that the informal sector shows a heterogeneous structure. For some workers, the informal sector is an attractive employment opportunity, whereas for others—rationed out of the

sector as downgraded labour who receives lower wages, fewer benefits in addition to inferior working conditions in comparison to individuals employed in the formal economy. The legalist school does, however, have a rational response regarding the absence of over-regulation of employees of the informal sector as they are able to avoid governmental regulations and bureaucracy, reducing costs and promoting wealth creation.

Nevertheless, the development and magnitude of informal employment has been traditionally credited to the displacement of workers into insecure forms of labour market attachment as the only feasible alternative to unemployment. The informal economy rotates around a variety of economic activities that evade costs; additionally, all these activities are excluded from not only the benefits and rights incorporated in laws but administrative ruling and commercial licensing. Thus, this sector not only has little to no social protection or employee benefits but undermines the principle of inclusiveness within the labour market.

Moreover, the feminisation of poverty combined with prejudice with regard to gender, age, ethnicity, or disability implies the most exposed and marginalised groups tend to end up in the informal economy. This is especially true for women and young people especially since informal employment is the standard condition amongst most youths in Bangladesh. Consequently, a significant disadvantage of working in the informal sector rotates around a lack of economic security. Economic insecurity defined by several factors, irregularity of income, pricing skills as well as a low-income customer base. Dealing with unprincipled employers is another familiarity when dealing with the informal sector.

EMINENCE OF INFORMAL ECONOMY IN BANGLADESH

The eminence of the informal economy in Bangladesh derives from the promise it offers of generating a reasonable source of income for the most vulnerable



PHOTOS: KAZI TAHSIN AGAZ APURBO

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Labour Force Survey (LFS) 2016-17, out of the total 60.83 million employed labour in the country, 85.1 percent work in the informal sector; females are more involved in informal activities (91.8 percent) relative to 82.1 percent for males. In both rural and urban areas, females and youths (aged 15-29) are more likely to be in informal employment.

In 2017, a total of 51.7 million people was engaged in informal employment; of them 31.0 percent were 15-29 years old, while 64.9 percent were 30-64 years old, and only 4.1 percent were 65 or older. There exists a clear negative correlation between higher educational attainment and informal employment

The informal sector accounts for around 40 percent of the total gross value added, with the highest contributions in agriculture, fisheries, trade, and industries (micro, small, and medium enterprises, MSMEs) where capitalisation is relatively low. Over the years, there has not been much change in the level of informality. In 2000, 75.2 percent of employment has been informal, and the share rose to 85.1 percent in 2017. The rising share of informal employment, however, is not due to declining levels of formal employment, but due to more rapid growth in informal employment than formal jobs.

formal sector—the informal sector is a strategy of the last resort.

The dualists have a posit view towards the informal economy and consider the informal sector as a tangential or marginal occurrence that results when there is an inadequate amount of jobs in the formal economy; and this will recede with the development of the modern sector. The structuralist school perspective does, however, view the informal economy as a means to reduce labour and capital costs by subordinating small informal producers and traders into completing tasks, creating competitiveness.

On the other hand, the underground economy approach views the informal