

DIGITISATION AND INCLUSIVITY: TAKING EVERYONE ALONG

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Informal economy and economic inclusion

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Furthermore, auxiliary positive effects of the informal economy consist of a reduction in the crime rates, reduction in rural to urban migration, a reduction in poverty levels as well as the construction of an appropriate base for apprenticeship training. However, many informal entrepreneurs have no access to banking facilities or collateral as a means to secure a bank loan.

Given the overwhelming dominance, skills development in the informal sector is an issue of great importance for Bangladesh. It concerns almost all the sectors in the economy. For ensuring greater efficiency and higher productivity, it is necessary to develop technical and vocational skills for these young people and other stakeholders in the sector. The informal apprenticeship programmes that currently exist in the informal sector have better external efficiency although it costs about three times less than formal training courses.

Skills development in the informal sector means focusing on the needs and capacity building of the MSMEs. The skill development initiatives for enhancing skills improvement in the informal sector are no doubt challenging tasks. There is over six million children out-of-school in Bangladesh who have either dropped out of or were never enrolled in schools. 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 to be given an opportunity to not only complete courses in non-formal basic education but also stream into training on livelihood skills. Still, informal skills development remains outside the scope of government programmes. A large number of NGOs—both large and small—have adopted various programmes of skilling young people, especially from the

marginalised and disadvantaged sections of the society.

In Bangladesh, the Directorate of Technical Education (DTE) and the Bangladesh Technical Education Board (BTEB) have been adopting different models towards skill training delivery options for the disadvantaged, particularly for the working children. It is expected that these models will be institutionalised through government-run vocational training centres. 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.

Formal work environment in Bangladesh is also undergoing 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 activities and work in family-run micro-enterprises. The informalisation of the labour market with changes in the concept of employability risks exclusion from employment for those without appropriate skills. Further, the rapid expansion of the country's informal sector is an outcome of the inability of the formal sector to generate adequate employment opportunities.

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. According to the Labour Force Surveys, the growth of formal sector employment has been very slow over the years. Most of the additional labour force has been absorbed in the

informal sector. Therefore, 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, most of whom are underemployed.

A POLICY AGENDA FOR BANGLADESH
In theory, the government has several policy options for dealing with informality: it can choose to do nothing about it, or it can seek to reduce it either by deregulating the formal economy or by facilitating formalisation. In reality, the negative impacts of doing nothing mean that interventions to tackle informal employment are required. Deregulation means reducing taxes and state regulations that apparently forces up labour costs and prevent flexibility, and which thus act as a disincentive to formalisation. However, there is little evidence that reducing taxes and deregulating the formal economy reduces the informal economy.

Given the problems that informality poses, a policy to eliminate the informal economy is a daunting challenge. It would simply be unrealistic in Bangladesh, where over 85 percent of the labour force works informally—mostly for a subsistence-level livelihood and for want of alternative employment. The point of the policy aimed at reducing informality is not so much to eradicate it per se as to bring informal workers and enterprises within the sphere of formality. The objective is indeed the growth of the formal economy, decent work, fuller employment and increased tax revenue for the government. The efforts should therefore be not only shifting informal workers into formal jobs, but also registering and taxing formalised enterprises, providing informal workers with benefits such as access to legal and social protection as well as support services (e.g. skills or business training), and

enabling them to participate in collective bargaining processes.

The policy measures available for promoting formalisation may be divided into a hard compliance approach and a soft approach that seeks to foster a culture of commitment to acting lawfully, including through the pursuit of broader development objectives. In the hard compliance approach, deterrence measures and/or making formalisation beneficial and easier are used both to prevent businesses and labour from entering the informal economy and facilitate the formalisation of businesses and labour already in the informal economy. The intention is to change the terms of the cost/benefit trade-off confronting those engaged in or planning to join informal employment.

The deterrence approach concentrates on the cost side of the trade-off by increasing the perceived or actual likelihood of detection and penalties and sanctions for those who are caught. Policy measures might include enforcing the obligation to register all new workers with a social security agency prior to their first day at work, increasing labour inspections, strengthening or creating new monitoring agencies, improving cooperation between agencies and increasing the penalties for offenders. This, therefore, constitutes a “negative reinforcement” approach, using punitive measures to elicit behaviour change among those not in compliance. The evidence on whether this approach works is mixed. Although some find that improving detection and/or penalties does reduce informal employment, others find that informal employment actually grows in the face of such policies.

Rather than increasing the cost side of the trade-off, recent policies have given more attention to making it beneficial and easier to formalise. Firstly, preventive action can be taken against non-compliance, notably by simplifying regulatory

compliance, introducing new categories of legitimate work, providing business support and advice, giving direct and indirect tax incentives, and developing initiatives to smooth the transition to formal self-employment. Secondly, measures can be taken to facilitate the formalisation of those already in informal employment. Such “remedial” action can include business advisory and support services to those seeking to formalise their endeavours, and a variety of targeted direct or indirect tax incentives encouraging the use of declared rather than undeclared work.

The hard approach thus assumes that participants in the informal economy are rational economic agents and that it is simply a case of changing the cost/benefit ratio confronting them. The soft approach focuses on developing a culture of commitment to being lawful so that “sticks-and-carrots” are no longer required. In other words, it shifts the policy focus from direct to indirect controls. Specific policy measures include educating people into the benefits of formality and not evading labour laws, running awareness campaigns about the benefits of formality, and promoting procedural justice and fairness among tax and social security offices and labour directorates.

What is clear is that informal economic activities are highly diverse and there is no one-size-fits-all policy to support the development of formal businesses. In order to truly change the living conditions of the populations of Bangladesh, it is essential that the government not only realise but take advantage of the hidden potential within the sector. The people in Bangladesh are natural innovators in lots of different ways; we need to understand that and help them make the most of it.

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Invested more than **1000** garment factories
with a market share of **21%**

Created employment opportunities
by investing in **6000** industries

The highest contribution to the SME sector
with a market share of **19%**

The highest remittance receiving bank
with a market share of **21%**

Pioneer in import and export sectors

1.2 million members in **22** thousand villages
are benefited from micro-finance

Remarkable contribution to agriculture
and agro based industries in Bangladesh

The highest tax payer bank in the banking sector