

DEVELOPMENT OF RURAL INFORMAL SECTOR FOR ELIMINATING RURAL POVERTY IN BANGLADESH

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Abstract

Bangladesh is one of the world's most densely populated countries with 150 million people, 26 % of whom live below the national poverty line of US \$2 per day. According to World Bank 47 million people of Bangladesh live in poverty. The population in Bangladesh is predominantly rural, with almost 77.1 % of the population living in rural areas. Many people live in remote areas that lack services such as education, health clinics, and adequate roads, particularly road links to markets. An estimated 36 % of the population in rural areas lives below the poverty line. This study focused to analyze the development of rural informal sector for eliminating rural poverty in Bangladesh. Observations have been found that informal employment dominates the country's labor market, being estimated at about 89% of the total number of jobs. It is more prevalent in the rural areas than in urban areas. Informal sector accounted for more than 40% of the total gross value added of Bangladesh in 2010. Although informal workers are occasionally disadvantaged comparing with formal workers, particularly in terms of income and social protection coverage but they are more vulnerable to economic and social shocks. The total labor force is comprised of 69.7% male and 30.3% female, of which 76.4% worked in the rural areas and 23.6% in urban areas. The development of rural informal sectors will be impetus to national development. There should have to give emphasize on the development of rural informal sector by taking steps to barriers against this.

Keywords: Informal sector, rural economy, poverty, labor force, unemployment

Introduction

In general informal sectors are those sectors which are not included into formal sector. It is common that formal sectors are listed in any country's trading items. But informal sector is mainly based on rural items. Many items are now entering into formal sector by their importance. But still there remain huge informal items which can play a significant role in improving rural economy. In rural areas informal sectors may be categorized as different items. For instance food items such as Muri, Bitten Rice (Chira), Parched rice, Cake etc. Using materials like Bamboo made items, Cane made items, Straw, Date leaves

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etc. Agriculture related items like Fisheries, Vegetables, Floriculture, Green leaves etc. Finally, the service related items such as barber, cobbler etc. are also included in informal sector.

The World Bank announced in June 2013 that Bangladesh had reduced the number of people living in poverty from 63 million in 2000 to 47 million in 2010, despite a total population that had grown to approximately 150 million. This means that Bangladesh will reach its first United Nations-established Millennium Development Goal, that of poverty reduction, two years ahead of the 2015 deadline. Bangladesh is also making progress in reducing its poverty rate to 26% of the population. The population in Bangladesh is predominantly rural, with almost 77.1% of the population living in rural areas. Many people live in remote areas that lack services such as education, health clinics, and adequate roads, particularly road links to markets. An estimated 36% of the population in rural areas lives below the poverty line.

Informal sector is very important area of the economy for any developing country. It is a growing occupational sector for the less skilled people, living both in urban and rural areas. Considerable amount of employment are ensured by this sector. In this study we are trying to examine effects of rural informal sector on poverty eradication in rural Bangladesh. The remainder of the paper is organized as follows: In section 2 the objectives of the study is presented. In section 3 the methodology of the study is explained. Section 4 presents the present scenario of informal sector in Bangladesh. Section 5 explores the uprising importance of the informal sector for the rural economy of Bangladesh. Section 6 highlights the probable barriers for flourishing of informal sector in rural areas. Finally, section 7 discusses some of the policy remarks regarding the improvement of rural informal sector and the concluding part. The objectives of this study were: i) to identify the availability of informal sectors in rural areas; ii) to examine the role of informal sector to eliminate rural poverty; iii) to identify socio-economic and cultural barriers for rural informal sectors; and iv) to give some recommendation for the development of rural informal sectors.

Materials and Methods

This study is a theoretical analysis of secondary data. This study is mainly based on conceptual ideas and secondary information. Data recorded by related authority like Bangladesh Bureau of Statistics (BBS) are used for this research. Most of data are used from Bangladesh Statistical Year Book, Household Income and Expenditure Survey (HIES), Labor Force Survey (LFS) and Informal Sector Survey (ISS). All of these are the survey published book of BBS. Using tables and figures all the data obtained from secondary sources are analyzed and finally a conclusion is drawn. Afterwards, some recommendations are made for the betterment of this sector so that economy can squeeze the absolute benefit there from.

Present status of informal sector

The Table 1 shows the estimated values of the size of the informal economy in 110 developing, transition and OECD (Organization for Economic Co-operation and Development) countries. The average size of the informal economy, as a percent of official GNI in the year 2000, in developing countries is 41%, in transition countries 38%, in OECD countries 18% and in other countries 3%.

Table 1. Informal economy of the world

Countries	Informal economy (billions of current US\$) in 2000
Developing + Transition + OECD	4915.5
Bangladesh	16.7

(Source: Bangladesh Statistical Year Book, 2010)

Most of the developing countries are beset with large number of villages. Most of the villagers are poor. They live from hand to mouth. Generally they meet up food 2/3 times in a day. Nature living tendency also help to maintain their living standard. There are many financial sectors or means for their way of life. Most of the cases they are known as informal sector. Normally informal inputs are found free of cost or by minimum cost. As a result villagers can engage themselves in developing their career and focusing their bread and butter earnings as well as eliminating poverty by developing informal sector. We can see from the Table 2 as the 66.8% rural people out of total remained unemployed. Informal enterprises have also occupied a large extent in rural area as 76% of total informal enterprises of the economy.

Table 2. Labor force characteristics in rural area of Bangladesh

Population	Total (1000 persons)		Rural as a % of total
	Total	Rural	
Total	148708.8	114668.7	77.1
LF	56714.0	43310.8	76.4
Unemployed	2652.9	1773.1	66.8
Employed	54061.2	41537.7	76.8
Informal enterprise	41649.2	31645.5	76.0

Source: Computations using 2010 Labor Force Survey (LFS) and Informal Sector Survey (ISS)- by BBS.

According to Labor Force Survey, 2010 the total labor force is comprised of 69.7% of male and 30.3% female worker. From table-2 we find that total labor force in Bangladesh is about 56.71 million among which rural labor is about 43.31 million which is 76.4%. Here about 1.77 million rural labor forces are unemployed. Rural informal enterprise (in primary job) labor are about 31.65 million and still there remains huge potential informal sectors which have not even introduced. If all the informal sectors have even been

emphasized then rural poverty may be eliminated. Poverty situation in Bangladesh is shown in Table 3.

Table 3. Head count rates (%) of incidence of poverty (CBN Method), 1991-92 to 2010

Year	Upper poverty line			Lower poverty line		
	National	Rural	Urban	National	Rural	Urban
2010	31.50	35.20	21.30	17.60	21.10	7.70
2005	40.00	43.80	28.40	25.10	28.60	14.60
2000	48.90	52.30	35.20	34.30	37.90	20.00
1995-96	50.10	54.50	27.80	35.20	39.50	13.70
1991-92	56.70	58.80	42.80	41.10	43.80	24.00

Source: HIES-2010 (HIES-Household Income Expenditure Survey), BBS; (CBN-Cost of Basic Needs)

We will get clear realization from benefit factors of uprising rural informal sectors which may help for flourishing this sector. There are many probable barriers such as illiteracy and ignorance, superstitious belief, lack of facilities, scanty of financial support, lack of developed market, less access to the information and technology etc are against it and should have to overcome by finding various ways. Proper and effective concentration is required to improve this sector. If effective policies can be formulated then rural economy will be improved which will tend the uplift of national economy.

Benefit factors of uprising rural informal sector

Cheap labor: There are large numbers of cheap labor in rural area. More than 77.1% of total population lives in village. Of them 76.4% work in the rural areas and 23.6% in urban areas. As a result there remain many unemployed and semi-employed workers in rural area. They are mostly uneducated/low-educated and skilled/semi-skilled. As a result rural informal sectors may develop easily.

Large number of labors: From table-4 it is found that in Bangladesh informal employment is estimated about 88.5% of the total number of jobs in the labor market. From the table we also get that informal employment is more prevalent in the rural areas at 92.3% compared with 76.0% in urban areas.

Table 4. Employment by nature in percentage (%)

Labor Force	Bangladesh	Rural	Urban
Informal	88.5	92.3	76
Formal	11.5	7.7	24

Source: Labor Force Survey-2010 and Informal Sector Survey-2010, BBS.

More Profit for the investors: The production cost of rural informal items is less than that of urban. The rural labors demand fewer wage. As a result rural investor will get benefit

in terms of business and creation of employment in the rural sector. Despite the heterogeneity of the informal economy, workers of the informal sector can be grouped into several basic employment categories, (i) Employer (ii) Self employed and (iii) Wage –workers (Chen, 2005). From table 5 below we get that both in agriculture and non agriculture sector employees are getting lower in informal activities than that of formal activities.

Table 5. Monthly income by type of worker, economic sector and nature of employment (in Taka)

Type of worker	Agriculture		Non-agriculture	
	Formal	Informal	Formal	Informal
Employee	2534.8	1353.6	2319.5	1710
Employer	3321.6	1041.6	5497.2	3079.6
Own-account worker	1516	1583.7	4339.1	1862.7

Source: Labor Force Survey-2010 and Informal Sector Survey-2010, BBS.

Self-employed business: Rural informal sectors are mainly based on self-employment basis. Most of the rural enthusiastic youth operate this business for taking a challenge in their economic life. Educated and energetic people can run this business for creating employment for himself and similar category people. As a result rural unemployment is being eradicated and it fasters the growth of rural economy. From chart below as:

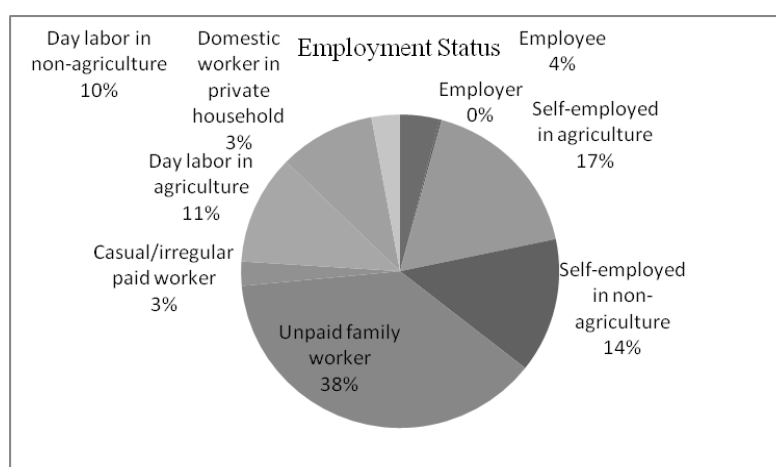


Fig. 1. Employment by employment status and nature (Source: Labor Force Survey-2010 and Informal Sector Survey-2010, BBS).

Small size of enterprise: It may run by small size of enterprise. Few people and small amount of money is enough for running such type of business. From Table 6 we get that more than 88% of the informal enterprises established with less than 10 workers. Only

6.1 % informal enterprises needed large number of workers (50 and more) for their establishment.

Table 6. Employment by employment size of establishment and type of production unit

Employment Size	Informal enterprise (%)
Less than 10 workers	88.4
10-49	5.6
50-149	2.8
150 and more	3.3
All	100.0

Source: Labor Force Survey-2010 and Informal Sector Survey-2010, BBS.

Barriers for flourishing of informal sector in rural areas

Illiteracy and ignorance: It is the main barrier for flourishing these sectors. Illiterate people do not apply their conscience to develop these sectors. As a result they remain poor and suffer from poverty. Lack of education and ignorance hampers the improvement of rural economy.

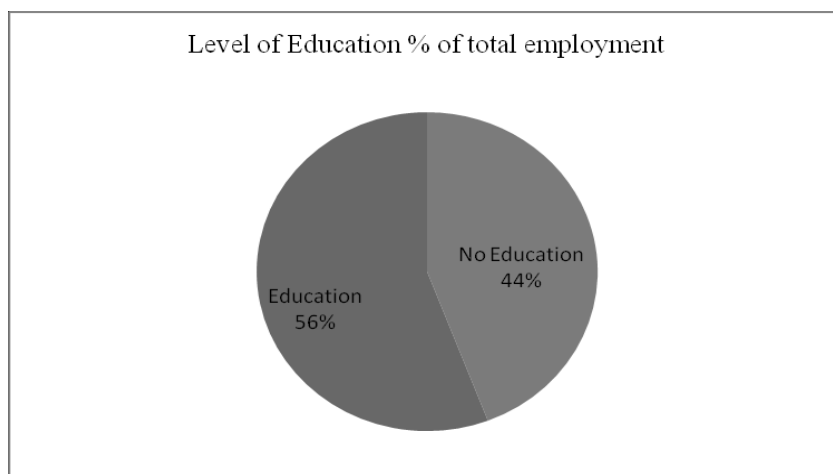


Fig. 2. Employment by level of education in informal sector (Source: Computations using 2010 LFS and ISS, BBS).

Superstitious belief: Many villagers are relying on superstitious belief about their fate. As a result they do not play any role for changing their fate by creating any exceptional works. People who are engaged in this occupation are considered detestable. Although present thinking has been changed positive towards the improvement of rural informal sectors.

Lack of proper Communication: The communication system of rural to urban becomes very lengthy and non-informative. People in rural area do no able to share their ideas,

views and prospect of their products. Information related to all extent is essential for rural people. Lack of proper communication rural economy becomes lag behind.

Lack of infra-structural opportunity: Infra-structural condition in rural area is very poor. There is no good market, good store house, seed place, information centre and other infra-structural facilities in rural areas. As a result overall economic condition becomes less attractive than that of urban areas.

Less access to information and technology: The condition of adoption of latest technology is rare in village area. Computer, Internet, Information centre, training for technology is scarce here. One may has to go 15 km to 20 km for getting facility of photocopy and printing something. As a result rural people become unaware towards the use of modern technology and its merits for improving the rural economy by selling and buying rural informal products.

Table 7. Proportion on HUEMs Source of initial capital and financing (%)

Source	Initial Capital	Financing (If required)
Banks	5.8	10.7
Micro lending facility	3.9	5.1
Cooperative	0.5	0.6
Non Government Organization (NGO)	12	17
National/Local Government Project	0.3	0.6
Family/Relative	24.9	24.4
Neighbor/Friends	3.5	6.6
Employer/Landlord	0.2	0.2
Private money lender	2.6	4.6
Own source/Saving	45.2	29.3
Others	1.2	1.1

Source: Computations using informal sector survey (ISS)-2010, BBS. (HUEM= Household Unincorporated Enterprise with at least some market production)

Scanty of financial support: There is scanty of financial support to rural informal sector. Normally creditors find risky to provide credit to rural poor people. As a result they have to borrow money from relatives, neighbors and rural mahajons at high interest rate. No institutional creditors take risk for improving rural informal sector. Sometimes different NGOs provide loans to rural people without any collateral at high interest rate. By taking scanty financial support they move ahead with their business. Banking sectors and other financial institutions have been developed in urban areas. Rural people become dark about the access to these financial institutional channels. Poor people remained unconscious about banking system. Rural economy becomes less patronized by modern financial service systems. As a result rural people do not transact through banking channels and remained deprived of modern service opportunities. So they do not make

involve rural informal sectors with banking & other financial service channels. They even do not get credit, deposit money and complete transaction through banks. It is also one of the main barriers to flourish rural informal sectors. Table-7 below shows that initial capital is collected mostly from own source 45.2%, from family or relative 24.9%. Non Government Organizations (NGOs) also provide initial capital 12% but for financing (if required) 17%.

Lack of efficient enterprise: There is no any efficient enterprise to run these sectors smoothly. Most of the rural enterprises are vulnerable and unsustainable. As a result rural informal sector has not been institutionalized since inception.

Lack of developed markets: There are no developed markets in rural area. Most of the markets sit temporarily and close after certain time. Safety, security and quality products remain scarce here. For better shopping people usually go at urban market keeping dark side of rural market. No effort is yet taken to develop the rural market.

Ways of improving rural informal sector

Credit system: Most of the villagers are financially weak. They need financial aid for the development of the informal project. Generally financial organizations emphasize for giving credit to formal sectors. Many individuals also collect credit from person who engages in usury business. But their rate is too high and sometimes it deteriorates the economic condition of debtor. Recently BRAC, ASA, Grameen etc. different types of NGO organizations are helping for developing rural sectors. Rural informal sectors have given priority for eliminating poverty by improving those sectors.

National policy: National policy should be conducive towards the development of rural informal sectors. Government and NGOs can take preparing proper policies for improving rural informal sectors. Government should prioritize as a number one target to develop rural informal sectors as development of the total economy. Keeping rural economy behind our country cannot be developed. In this case proper and effective policies are required to flourish this sector.

Concern and consciousness: There should be concern and consciousness for improving the rural informal sector. The development of rural economy is essential for the development of national economy. To eradicate poverty and ensure solvency there should necessary consciousness and concern of the rural people.

Infra-structural development: Infra-structural facility is essential for developing rural economy. If proper storage, shopping mall and other facilities can ensure then people will be encouraged to contribute rural informal sector.

Wide marketing policy: Wide marketing policy is needed badly. If marketing policy is known to all then people of all sorts will be informed of the products. Rural informal product is normally cheap and reliable. So the consumer may be benefitted. Enthusiastic

youth should come forward to create innovative rural informal product and develop it. In this case proper patronage and guidance should be ensured by government and business people. Financial institutions can play vital role in promoting rural entrepreneurship.

Education and research: A large scale of education and research is required to develop rural informal sectors. Huge investment in rural education and research is required to promote the rural economy. Consumer's taste identification, innovative product and marketing development, idea development and proper policy guideline are required.

Conclusion

Rural informal sector is now a burning issue all over the world. As a developing country Bangladesh can play a vital role for patronizing rural informal sector. If these sectors become flourished then rural economy will be developed and it will tend to national development. In general rural people suffer from economic scarcity; they do not get nutritious food, wear cloth. If they start business of informal items produced locally then they will get economic solvency and ultimately poverty will be eliminated. There remains many benefit factors favoring the concentration of rural informal business. If one utilizes rural abundant resource he or she can overcome poverty. Although there remain various barriers to develop rural informal sectors but there are also various ways of overcoming it. In this case both government sectors and non government organization (NGOs) can take proper and effective steps. Mass awareness and consciousness of the rural people is needed here. Abstaining from seeking traditional jobs rural youth can start the business with rural informal sectors. For this unemployment as well as poverty will be alleviated from the country.

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