Employment Opportunities in the Informal Sector: Evidence from Urban Areas of Bangladesh

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Abstract: This study identifies the current contribution of the informal sector in the economy of Bangladesh, the steps involved, and problems associated with informal sector employment in urban areas of the country. Few previously published data is used with that of 387 respondents from five divisional cities of Bangladesh surveyed using a semi-structured questionnaire. The findings show that the informal sector generates nearly ninety percent of the total employment and contributes nearly half of the GDP. Besides this, the informal sector employment in urban areas of Bangladesh can be structured into six steps sequential process. Participants face several problems in both establishment and operation of their businesses, which are common at both stages but vary in degrees. The most significant problems are the shortage of capital, low profitability, establishment or service charge, and competition. These findings would be valuable in future policymaking in urban planning, employment, and income distribution in Bangladesh.

Key Word: Bangladesh, Employment, Informal business, Informal sector, Urbanization.

I. Introduction

The importance of the informal sector in the economic growth of developing and least developed countries (LDCs) received much attention in the recent economic literature. These studies addressed the most common characteristics of the informal sector but used different synonyms, i.e., black market, underground economy, informal business, illegal economy, shadow economy, unregistered economy, and informal economy. International Labour Organization (ILO) used the term “informal sector” to represents all economic activities by workers and economic units that are - in law or practice - not covered or insufficiently covered by formal arrangements. Nevertheless, there is a debate between researchers, whether the informal sector includes illegal activities. According to the World Bank, the informal sector includes all legal and illegal activities that are not comprised in the gross national product (GNP) and gross domestic product (GDP) of a country.

Though the boundary of the informal sector activities is not clearly defined, it is evident that 20-70 percent of the total GDP comes from the informal sector in developing countries (Schneider, 2005). During the economic transition, the informal sector plays a vital role in the generation of income, employment, and the absorption of surplus laborers. Besides this, self-employment is also a crucial characteristic of the informal sector (Becker, 2004). Therefore, the informal sector offers the avenue for income generation for legal entities, sole proprietors, and unregistered people as well, who can also perform intentionally or unintentionally such economic actions and operations that are concealed from the state authorities. Still, they produce goods and services that are not forbidden by law and do not disappear with the development of a society (Simutina & Leventov, 2019). However, the government does not include these economic activities into formal accounts of the country, keeping the earnings of the informal sector non-taxted.

Employment creation is another essential characteristic of the informal economy. Researchers showed that 93% of newly created jobs in Africa during the 1990s were part of the informal sector (Chen, 2001). According to ILO, 80 to 90 percent of the labor force in South Asia is occupied in the informal sector. Higher flexibility, freedom, and other enabling factors allow these large population base of this region to involve in the informal sector. Similar to other countries, the informal sector also plays a dominant role in employment creation in Bangladesh. According to the recent Labour Force Survey (LFS) 2016-17, 85.1% of the employed population are currently engaged in informal employment, while in LFS 2010, it was nearly 89%. Though the contribution of informal employment as a percentage has been reduced a little bit, the total number of employment in gross terms has been increased to a greater extent.

This study aims to sheds some light on the existing gap in the literature by exploring the informal sector employment in the urban areas of Bangladesh. Previous studies in management literature minimally explore the informal sector activities in Bangladesh. Still, there is a research gap regarding the process of informal sector employment in urban areas of Bangladesh, especially the steps involved in this process and
difficulties associated with the establishment and regular operations of informal sector activities. Therefore, the specific objectives of this study are, first, to identify the current status of informal sector employment and its contribution to the Bangladeshi economy. Second, to ascertain the steps involved in the informal sector employment process in urban areas of Bangladesh. Third, to find the significant difficulties present both at the establishment and regular operations of informal sector activities in the urban areas of Bangladesh.

The findings of this study have several potential implications. First, it contributes to the existing gap in the literature of informal sector employment in Bangladesh by portraying a holistic view of this sector. Second, it depicts the steps involved in the informal sector employment process, which starts with migration to urban areas and ends with the actual involvement in informal sector activities. Third, the identification of significant difficulties in the informal sector activities would be useful to design this sector more meaningfully, so that more people can be facilitated in informal sector employment. The emerging contribution of the informal sector cannot be ignored. Therefore, it would be the best interest for the nation to receive the maximum benefit from the informal sector to the economic development and employment of the country. Finally, these findings would be useful for future policymaking in urban planning, employment, and income distribution.

The remainder of this research paper is organized as follows. The next section presents a literature review examining the informal sector employment in developing and LDCs as well as in Bangladesh to develop the research gap. Following that, the methodology of this study is presented in section 3, which includes the research approach, population and sample, data and sources, data collection method, and data analysis techniques. Section 4 includes the analysis and relevant discussion of significant findings of this study, which includes first, the present status of employment in the informal sector and its contribution to the national economy; second, the steps involved in informal sector employment process in urban areas of Bangladesh; and third, the significant difficulties associated with the establishment and regular operations of informal sector activities. Lastly, the conclusion and significant implications of this study are presented in the final section.

II. Literature Review

Keith Hart first coined the term "informality" in 1973, which now frequently use in different purposes with diversified meanings. However, it was first institutionalized in the Fifteenth International Conference of Labor Statistician (ICLS) held in January 1993 (Hussmanns, 2004). The 15th ICLS, the informal sector is referred to the combination of units engaged in the production of goods and services with a principal objective of creating employment and incomes to the persons concerned. These units typically have small-scale factors of production and operate at the lower level of organization with little or no division between labor and capital. This definition characterized the informal sector as production units in which activities take place rather than a person involved in the sector. Therefore, the informal sector defined as comprising all persons who are employed in at least one such production unit in the given period, irrespective of their employment status.

Similar to the use of different terminology of the informal sector, it is also defined differently across countries. However, all these definitions expressed some standard features of the informal sector. In developing countries, such as Brazil, India, and Mexico, jobs without social security coverage or written contracts are treated as informal (Hussmanns, 2004). Sida (2004) considered all economic activities by workers and economic units that are not covered or insufficiently covered by formal arrangements in law or practice. Hossain (2005) considered informal business activities that are unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated. Moreover, these business activities are unregistered, evade taxes, and do not comply with labor laws, particularly those affecting non-wage labor (Chowdhury, 2005). Macias and Cazzavillan (2010) also termed unregistered or unreported activities within the economy as informal business activities.

There are very few previous studies that addressed the role of the informal sector in the economic development of Bangladesh. However, several previous pieces of literature addressed this issue in the context of other Asian countries (i.e., Amin, 2001, 2005; Amin & Singh, 2002). Few of this previous literature argues that the progression of the informal sector deters the usual economic progression of the country as this sector is less productive (Friedman et al., 2000; Ihrig & Moe, 2004; Porta & Shleifer, 2008). However, the informal sector might expand growth potential by creating new firms, restraining the impact of out-of-date regulation, and improving income distribution (Eliat & Zinn, 2002). Therefore, the informal sector crucially facilitates the economic development of the countries and adjusts towards the structural reforms of the global community (Schneider & Enste, 2000).

In the context of Bangladesh, Raihan (2010) identified several significant characteristics of the informal sector including, absence of recognition or regulation by the government, unregistered, small scale operation, low level of productivity, income generation, institutional credit access (sometimes lack of access to formal credit). Besides, employment is mainly based on kinship, personal/social relations, and casual but mostly contractual. Chowdhury (2005) further added that informality in the economy is also characterized by political instability, lack of the rule of law, corruption, cumbersome business regulation, and irregular payment. Hassan
Employment Opportunities in the Informal Sector: Evidence from Urban Areas of Bangladesh

(2018) claimed that in the past decade, the informal sector of Bangladesh constitutes around 35% to 78% of the total economy. The author further identified the key reasons behind the large informal sector are bureaucracy and corruption, quality of the legal framework, the larger size of the tax, and the burden of social contribution. Therefore, the informal sector is significantly contributing to the graduation of Bangladesh from LDC.

Becker (2004) categorized informal sector employment as a) self-employed (i.e., own-account workers), b) wageworkers (i.e., employees of the informal business), and c) employers (i.e., owners and owner-operators of informal enterprises). Sarker et al. (2016) considered day laborers, rickshaw pullers, van drivers, wholesale and retail traders, and workers in restaurant, manufacturing, transport, storage, and communication as informal sector employment in Bangladesh. Hossain, Siddique and Islam (2015) grouped informal employment of Bangladesh into eight main groups, namely, clothing, foods, fashion, accessories, fruits, household accessories, stationery, medical service, and electronics. Besides, Hossain (2005) categorized informal urban sectors of Bangladesh in rickshaw pulling (29.4%), street vending & selling (22.8%), personal servicing (7.6%), construction work (6.4%), factory work (5.2%), and driving & transport work (4.6%). The author mentioned that the informal sector includes invisible and less visible activities, including works in small workshops. However, across the country, the majority of informal sector participants are women, followed by child labor.

The informal sector plays a vital role not only in job creation but also in the total economic output of Bangladesh (ADB & BBS, 2012). In recent years, the economy of Bangladesh has suffered from disgrace, causing swelling in the unemployment rates. As per the latest data of the Bangladesh Bureau of Statistics, in recent years, the number of jobless people went up by one lakh from 27 lakh in the previous year to 26 lakh in 2015-2016. Sarker et al. (2016) claim that limited job opportunities in the formal sector push people to involve in the informal sector. Besides, Bangladesh is one of the countries in the world that has been experiencing very rapid urbanization over the last four decades (BBS, 2014). A large number of populations who are now coming in urban areas have insufficient education and skills to be engaged in formal urban employment.

Some other essential factors are also fueling informal employment in the economy. Lack of formal education and proper skills propel the inhabitants of Bangladesh into the informal sector activities. Poverty, natural disaster, landlines, migration of family to urban areas, lack of proper financing sources, and shortage of capital also induce people to be involved in the informal sector (Hossain et al., 2015). Besides this, the rise in household demands for goods and services manufactured and supplied by the informal sector, as well as the rise in demand for intermediate inputs, is driving the informal sector employment in Bangladesh. However, none of these previous studies specified the process of informal sector employment in the urban areas of Bangladesh or the significant difficulties associated with both establishment and regular operation of informal sector activities in urban areas of Bangladesh. Therefore, this study sheds a few lights in these existing literature gaps.

III. Methodology

This study is a descriptive research in nature that explores the informal sector employment in the urban areas of Bangladesh. In this connection, this study adopts a mixed research approach that combines both qualitative and quantitative methods of investigation. A qualitative approach is useful to explore a phenomenon, conception, and reality in social science researches but limited to measurement, reliability, and transparency (Hossain et al., 2015). These shortcomings of the qualitative approach can be reduced by using quantifiable measures collected from the respondents through a questionnaire survey and reviewing the findings of previous studies on this field (Islam, Huda & Nasrin, 2019). Therefore, this study includes a qualitative approach with the quantitative method that supports the investigation of the concerned phenomenon with an objective assessment by using the information collected from the respondents.

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<th>Table 3.1: Sample distribution of the study</th>
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<td>Area</td>
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Source: Primary data collection, 2019
A questionnaire survey is used in this study consisting of several segments, including demographic, behavioral, economic, and financial. Data regarding these issues are fundamental to understand the process and difficulties in starting an informal sector activity in urban areas of Bangladesh. There is no specific information available regarding the total number of participants in informal business activities in Bangladesh. Therefore, this study adopts a non-random sampling method for determining an appropriate sample frame since probability sampling is not possible. Using a convenience sampling technique, data has been collected from 387 respondents operating in five divisional cities of Bangladesh named Dhaka, Chattogram, Rajshahi, Khulna, and Sylhet. Table 3.1 (see above) represents the sample distribution of this study. This sample size and sample frame are comparatively extended than a similar previous study conducted by Hossain et al. (2015), where only 153 respondents located in the CBD area of Dhaka city were considered.

Moreover, to understand the current status of employment in the informal sector and its contribution to the national economy, this study combines data from previous researches on the similar field and the online databases of World Bank, Women in Informal Employment: Globalizing & Organizing (WIEGO), Organisation for Economic Co-operation and Development (OECD), ILO, and related newspapers. Besides, the survey questionnaires are distributed to the respondents to collect the data during three months of the study period from October 2019 to December 2019. Furthermore, these collected data have been analyzed using simple descriptive statistics. Descriptive statistics represent the critical phenomenon of a particular issue without much detailed statistical analysis by using different graphs, charts, and tables to present the significant findings of different questions in a logical sequence.

IV. Analysis and Discussion

4.1 Current Status and Contribution of Informal Sector Employment in Bangladesh

Countries with high population growth and urbanization largely depend on the informal sector because of its significant role in employment creation, production, and income generation. According to the LFS 2016-17, the informal sector creates more opportunities for females (91.8%) than males (82.1%) in national employment of Bangladesh, and females and youths (aged 15-29) are more informally employed in both rural and urban areas. This survey also compiled the distribution of informal employment across the broad economic sectors of Bangladesh. The highest percentage of informally employed persons in total employment is in the agricultural sector (95.4%), followed by industry (89.9%), and service (71.8%). In the agriculture, mining, and quarrying, construction, trade, transport, storage and communication, hotel and restaurants, and private households industries have more than 90% informal employment. Besides, self-employed is prevalent in both agriculture and non-agriculture. Other major classifications are unpaid family workers, day labor in both agriculture and non-agriculture, and domestic workers in private households.

Also, LFS 2010 reported that the informal sector accounted for more than 40% of the total gross value added (GVA) of Bangladesh, with the highest contributions in agriculture, fishery, trade, and industries. In this connection, Khondker (2019) identified that the contribution of the informal sector is 43% of the total national GDP, which is larger than the informal GDP size of some of the Asian countries. The author also concluded that the agriculture sector is mostly informal (85%), whereas services are mainly formal (5%-15% informal). Besides, the informal sector contributes nearly 33% of the industry and construction products and 50% of the trade and transport services. Besides this, using firm-level data, the World Bank Enterprise Survey (WBES) 2013 reported that all but 40% of firms compete against unregistered or informal firms, and nearly 10% of firms perceive competition with the informal sector as a significant constraint.

Therefore, the informal sector is mostly contributing to the total employment of the country. This informal sector employment is frequent in rural areas where people with limited educational capabilities and resources have fewer opportunities to be involved in traditional and formal employment. Consequently, a large number of the working population start informal business activities in rural areas, and many others migrate to urban areas. However, this migrated workforce still involved in informal employment in city areas rather than able to create employment in the formal sector. Currently, the formal sector contributes 57% of the total GDP by having only 12% of the total employment, whereas the informal sector has nearly 88% of the total employment and contributes 43% of GDP (Khondker, 2019). Therefore, the informal economy creates more opportunities to contribute to the national economy, which requires a proper understanding of the process involved in starting informal sector employment and mitigating the problems associated with it.

4.2 The Process of Informal Sector Employment in Urban Areas of Bangladesh

The informal sector employment in the urban areas of Bangladesh can be structured into a sequential process depicted in Figure 4.1 (below). This process starts with people's migration to urban areas. Respondents reveal that both pull and push factors significantly contributed to their migration from rural to urban areas in Bangladesh. This study comes into view that scarcity of desired employment opportunities in rural areas, lower economic opportunities in place of origin, limited public services, landlines, and natural disasters are some of
the critical push factors that propel individuals to migrate in urban areas in a search for better economic earnings. Similarly, some of the pull factors, like large cities, new job and business opportunities, better income, variety of public services, also attract individuals to shift in urban areas. Biswas et al. (2019), claim that people mainly move to urban areas for work-related ventures, looking for new jobs, better incomes, or service transfers.

**Figure 4.1:** The informal sector employment process in urban areas of Bangladesh

Source: Authors' preparation based on primary data collection, 2019 [Note: solid lines show the sequential steps and the dotted line indicates the probable influence of elements]

The second step of this process is the decision to get involved in the informal sector. People who migrate to urban areas are not all initially intend to start their careers in the informal sector. Every year millions of people are leaving rural surroundings and moving to urban areas in Bangladesh to find the appropriate job. A UNDP study found that differential economic opportunities, the varying quality of public services, and the presence of environmental pressure in challenged localities are the three key drivers that cause people to shift in urban areas of Bangladesh. This study finds that nearly 65% of the respondents moved to urban areas in search of employment. However, only a few migrants could manage the desired formal employment and involved in informal sector employment. In this regard, some respondents’ situation supported to inherit an existing informal business, while for others either bought or started their own business.
Figure 4.2 (see above) represents the situations of how respondents of this study started their informal sector activity. 81% of respondents started the business by themselves, while 16% of the respondents bought it from others, and only 3% has inherited that from parents. There is a total of 86 female respondents in this study. Among these, nearly 93% started the business by themselves, and the rest of the 7% bought their businesses from others. However, none of the female respondents could inherit their informal business. This finding matches the traditional social structure of Bangladesh. Similar to other sectors in Bangladesh, parents prefer their sons rather than daughters in the informal sector activities.

The third step of the informal sector employment process is the selection of employment type. The majority of the respondents (95%) mentioned that ease of doing business and less complexity to start motivated them to enter into their activities. However, lack of financial support and risk associated with the business initially demotivated the rest 5% of the respondents to start such employment. Besides this, the previous experiences, skills, and knowledge match, and references from the peers also significantly influence them to select respective employment. The fourth step in the informal sector employment process is the selection of an appropriate place for their activities. In the selection of sites, respondents considered the clusters of similar businesses, possibilities of a considerable crowd, local demand, availability of raw materials, and excellent transportation facility. Some of the respondents also mentioned the influence of peers, relatives, and friends in their selection, while a few others decided randomly.

The fifth step of the process is the final preparation for employment in the informal sector. Respondents considered financing, facilities development, raw material procurement, and service generation in their final preparation. However, financing found the most significant constrain to any informal sector employment. Nearly 57% of respondents used their funds to start their business, while others arranged loans from friends and family, small non-government organizations (NGOs), micro-credit institutions, and banks. Figure 4.3 (below) shows the sources of funds used by the respondents of this study. Besides this, in the final preparation phase, respondents took permission from local authorities. Consent from the local formal or informal authorities is critical for starting an informal sector activity in a particular place. For example, to do business in front of an educational institution or shopping mall, consent is required from concerned authority. Moreover, the raw material procurement and required facilities have to arrange at this stage.
The final step of the informal sector employment process is the actual start of business activity. At this stage, informal sector participants usually continue their daily operations. However, respondents faced a significant number of issues at this stage, like reduction in demand for their main product or service, shortage of working capital, unavailability of the raw materials, etc. Consequently, in some instances, they had to modify businesses or transfer the operations to other convenient locations. Some of the respondents also updated and modified their businesses after commencing commercial operations. Although the majority of the respondents conforms to these sequential steps of informal sector employment, only a few others skipped one or two steps of this process. In a broader sense, therefore, this process of informal sector employment (see Figure 4.1) can be applied to understand and predict the steps required to get involved in informal sector employment in urban areas of Bangladesh.

4.3 Problems Associated with Informal Sector Employment

This study identifies the critical problems that a person faces in informal sector employment both at the establishment of their business and during the usual operation. An open-ended question is used to record the problems that respondents faced during the establishment of their business. Figure 4.4 (below) represents that the majority of the respondents (74%) identified the shortage of capital as their main problem. Respondents mentioned that getting a loan from the bank, micro-credit organizations, as well as from friends and family, is very difficult and involved complexity. Consequently, more than half of the respondents of this study had to start their business with personal funds (see Figure 4.3 above). Besides this, 66% of the respondents mentioned the term "establishment charge," which is facilitating money they had to offer to the concerned persons (market committee, police, security guard, political goons, and local persons, etc.) to receive the permission to establish an informal business in a concerned place.
Some other major problems faced by the respondents at the establishment of their informal businesses are place selection (61%), lack of proper business knowledge (57%), and competition (47%). Often, informal sector participants have little or no academic and related knowledge to access the most convenient place and type of employment. Consequently, they struggle to choose the right place and type of employment for their business. Besides this, a person interested in particular informal employment often faces pressure from the existing participants in that particular place. This pressure ranges from simple competition from business people of the same goods or services to a physical threat or even abuse. Few other most frequent problems identified by respondents at the establishment of their businesses are the cost of raw material (31%), labor skills and quality (9%), political instability (5%), low profitability (4%), and government regulations (4%) (Figure 4.4 above).

**Figure 4.5: Problems associated with the operations of an informal business**

Respondents are also asked to identify the problems they find critical during the operation of their informal businesses. The problems are structured similarly to compare whether the degree of the difficulty an informal business owner faced during the establishment of the business and running the business remains the same or not. Figure 4.5 (above) represents the problems respondents faced during the regular operation of informal sector activities. Many of these problems are similar to the problems at the establishment but at varying degrees. For example, 66% of the respondents (see Figure 4.4) identified "establishment charge" or payment to concerned authorities to get permission for the business as a significant barrier. However, the same respondent group confirmed that they need to keep paying these authorities daily, weekly, or monthly basis to continue their operation in the specified place. Nearly 85% of the respondents identified this payment as a significant problem for their business, which they termed as "service charge" or "tax" for their operation.

Several other significant problems that informal sector participants face during their operations are low profitability (69%), shortage of capital (67%), and competition (52%). As the informal sector of Bangladesh is usually unable to generate high-value end products or services, participants usually face low profitability with their operation. Consequently, it hinders business expansion and leads to a shortage of working capital. Besides this, ease of doing business and higher flexibility allows new entrants to be involved in this sector. Consequently, existing participants face severe competition in their respective informal sector employment.

Moreover, respondents mention that the usual rivalry between two major political parties in Bangladesh causes their business to remain closed several times. Respondents initially thought political instability would not be a problem. However, once they started the operation, the magnitude of political instability became more severe to the participants. Consequently, 39% of respondents considered political instability as a significant problem during the regular operation of informal sector activities, while only 5% of the respondents considered it as a problem at the establishment of their operation. Besides this, respondents also mention the cost of raw materials (26%) and government regulations (21%) significantly negatively affect their usual operations (see Figure 4.5 above).

**V. Conclusion**

Like other developing and LDCs, the informal sector is the forerunner contributor to the employment and GDP of Bangladesh. The highest percentage of employment in the informal sector is in agriculture, as this is still the source of primary economic activities of the country. However, people often migrate to urban areas and get involved in other types of informal sector employment available to them. Since income from this sector is not included the country’s tax policy, the informal sector is often left ignored by the policymakers. None of the
Employment Opportunities in the Informal Sector: Evidence from Urban Areas of Bangladesh

Previous studies portrayed a holistic view of this sector with its current contribution to the national economy, steps required to employment in the informal sector of urban areas, and significant problems at both establishment and operation of informal sector activities. Therefore, this study aims to shed some light on these literature gaps, which would also be useful in future policymaking in urban planning, employment, and income distribution in Bangladesh.

The findings show that in the most recent period, the informal sector contributed 43% of the national GDP and 88% of the total employment in Bangladesh. Besides this, the informal sector creates more employment for females than males, which are mostly involved in agriculture and household activities. However, things are quite different in urban areas of Bangladesh. This study finds that 78% of the total respondents are male who migrated to five divisional cities of the country for better employment opportunities.

The journey of these respondents from migration to urban areas to the actual starting of informal sector activities are structured into a step by step process. Several situational, demographic, economic, social, and psychological factors also, directly and indirectly, influence participants throughout this journey. This process of informal sector employment includes six steps named, migration to urban areas, decision to be involved in the informal sector, informal employment selection, place selection, final preparation, and informal sector activity.

This study also identified several critical problems that participants usually face during both the establishment and regular operations of informal sector activities. Some of these significant problems are establishment charge or service charge, shortage of capital, competition, lack of proper knowledge, and low profitability, which are common in both the stages, but the degree of difficulty varies. 66% of respondents paid a fee to the concerned authority to start the business in the selected place, which in their language is "establishment charges." Nonetheless, 85% of the respondents reported that they have to continue paying money to these same authorities regularly to keep their business alive. Respondents termed this payment as "service charge" or "tax" for their business. However, the lack of government policy and the support systems, none of this money is recorded in the national account. Therefore, the contribution of the informal sector remains understated, which could be changed by initiating proper policymaking.

This study creates valuable insights for academics, policymakers, and participants who are interested in informal sector employment in urban areas of Bangladesh. However, this research is not without its limits. This study relied on data from only a specific number of participants scattered in only five divisional cities of Bangladesh, using a convenience sampling technique. Moreover, the previously published macro-economic data used in this study is not very recent. Therefore, future research should include more participants and other major urban areas in its sampling frame. Besides this, future studies might concentrate more on specific economic activities in the informal sector and sketch out how those activities could be tied up with the national account. Last but not least, future research should initiate to find out the solution to the different problems identified in this study, as this study only pointed out the problems associated with the informal sector employment, rather than an acceptable solution.

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Employment Opportunities in the Informal Sector: Evidence from Urban Areas of Bangladesh


DOI: 10.9790/487X-2205032433 www.iosrjournals.org