

PROJECT REPORT

"Entrepreneurial activity in the informal sector (IS)"

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Submitted To

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Letter of Transmittal

23 August 2009

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Submission of Project Report

Dear Sir

I am submitting this report on '**Entrepreneurial activity in the informal sector (IS)**' as a requirement of Bachelors of Business Administration program of East West University.

This report is an accumulation of data regarding **Entrepreneurial activity in the informal sector (IS)**. The analysis is entirely done based on the data collected through a survey.

I hope that this report fulfills your requirements. Thank you for your kind consideration and guidance throughout the whole course of time.

Sincerely

Md. Masud

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ID: 2005-1-10-114

Acknowledgement

I would like to thank M. Sayeed Alam, my honorable supervisor, who helped me with his guidelines throughout the semester and specially to prepare this report.

The report might never have been completed without the necessary academic knowledge, assistance of reference books, web pages and some practical knowledge and enthusiastic cooperation from the course teacher M. Sayeed Alam.

I would like to thank all those, especially the Respondents of the Informal sector business; who have help me to prepare the report, and special thanks to my supervisor M. Sayeed Alam, and all the faculty members. I will remain grateful to all of them. I have done my best and I am confident that this report would meet the expectation of my faculty.

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BACKGROUND OF THE STUDY: This report is a requirement of my Project, which is a part of the Bachelors of Business Administration program. I have tried my level best to make it an excellent report. The informal sector is economic activity that is neither taxed nor monitored by a government; and is not included in that government's Gross National Product (GNP); as opposed to a formal economy.

Although the informal economy is often associated with developing countries —where up to 60% of the labor force (with as much 40% of GDP) works, all economic systems contain an informal economy in some proportion. The term "informal sector" was used in many earlier studies, and has been mostly replaced in more recent studies which use the newer term.

The English idioms "under the table" and "off the books" typically refer to this type of economy. The term black market refers to a specific subset of the informal economy in which contraband is traded —where contraband may be strictly or informally defined.

ORIGIN OF THE REPORT:

The report is being prepared under direct supervision & guidelines of **Assistant Professor M. Sayeed Alam** Department of Business Administration, East West University as a prerequisite for successfully completion of the BBA program.

Objective of the report

1 Broad Objective

To analysis of Characteristics of the IS entrepreneur in Dhaka.

2 Specific Objectives

- To know which factors are the most important in determining activity in the informal sector?

- To compare the overall activities of the Entrepreneurial activity in the informal sector (IS).
- Identify the factors responsible for Informal sector business.
- Identify of the effectiveness of every factor to each other.



Statement of the Problem

Whether the overall level of activities in the informal sector are help the government or not. What type of problem there are face in starting the business and running the business. What type of barrier they are face in operating the business.

Methodology

Type of Research

In this study, **EXPLORATORY RESEARCH** is done to first understand the overall situation and process of Informal sector. Then through exploratory research, the factors which determine the Activates level of an entrepreneur regarding informal sector were found. The target group of this research was the Owner of informal sector business. Then a **CONCLUSIVE RESEARCH (CAUSAL RESEARCH)** was done to fulfill the objectives mentioned above. The target group of this research was the Owner of Informal Sector business.

- **Sources of Data:**

To carry out the proposed study data has been collected from two sources; Primary sources and Secondary sources.

- 1 **Primary data:** Primary data for this study has been collected through a well prepared structured Interview. Owner who operating in the business to Informal sector are chosen for the Interview to collect data.

- 2 **Secondary data:** Secondary data are gathered from internet and Project reports of other organizations.

Questioning Process:

The questions are been asked after taking the service when they had some time to feel free to express their idea or by taking the prior permission about the time that they are willing to spend for interview. I have questioned to the respondent based on the questionnaire format without using the ambiguous words.

• ***Interview Technique:***

I have followed the “Questionnaire” for the survey keeping in mind the following advantages:

- 1 Fewer misunderstood questions and inappropriate responses
- 2 Fewer incomplete responses
- 3 Higher response rates
- 4 Easy to avoid biasness
- 5 Low cost
- 6 Easy to reach and take response.

• ***Sampling plan:***

The outlined sampling plan is given as below-

1. **Target population:** The population includes only the Owner of the Informal sector business.
2. **Sample size:** The sample size for the proposed Interview was 30. ‘Convenience and Judgmental Sampling Method’ is used to select these respondents from the different area.

- ***Data Analysis Procedures:***

- To find out the most important factors that make the owner most satisfied to operate the business.
- To find out the importance of each of the independent variables in determining activity of informal sector.

LIMITATIONS OF THE STUDY:

1. Sample size is too small (30 only).
2. Due to time and cost limitation, the study is concentrated only at the few Area of the Mohakhali, hazaribag tannary area, Dhanmondi and Jhangirmogor University.
3. Sampling error may occur in this study due to the utilization of convenience and judgmental sampling.
4. Difficulties in collecting information because most of the respondent was extremely busy and some of them are unwilling to participate.
5. Typically, these types of researches are carried out in groups. But, in this situation, it was an individual research. As a result, there was force provided by the researcher to carry the field work.

Background of the Informal sector Activities:

Informal economic activity is a dynamic process which includes many aspects of economic and social theory including exchange, regulation, and enforcement. By its nature, it is necessarily difficult to observe study, define, and measure. No single source readily or authoritatively defines informal economy as a unit of study, although the work of economic anthropologist Keith Hart was integral in defining the term. To further confound attempts to define this process, informal economic activity is temporal in nature. Regulations (and degrees of enforcement) change frequently, sometimes daily, and any instance of economic activity can shift between categories of formal and informal with even minor changes in policy. Given the complexity of the phenomenon, the simplest definition of informal economic activity might be: any exchange of goods or services involving economic value in which the act escapes regulation of similar such acts.

History:

Governments have tried to regulate (formalize) aspects of their economies for as long as surplus wealth has existed which is at least as early as Sumer. Yet no such regulation has ever been wholly enforceable. Archaeological and anthropological evidence strongly suggests that people of all societies regularly adjust their activity within economic systems in attempt to evade regulations. Therefore, if informal economic activity is that which goes unregulated in an otherwise regulated system then informal economies are as old as their formal counterparts. The term itself, however, is much more recent. The optimism of the modernization theory school of development had led most people in the 1950s and 1960s to believe that traditional forms of work and production would disappear as a result of economic progress in developing countries. As this optimism proved to be unfounded, scholars turned to study more closely what was then called the traditional sector. They found that the sector had not only persisted, but in fact expanded

to encompass new developments. In accepting that these forms of productions were there to stay, scholars started using the term informal sector, which is credited to the British anthropologist Keith Hart in a study on Ghana in 1973 but also alluded to by the International Labour Organization in a widely read study on Kenya in 1972.

Since then the informal sector has become an increasingly popular subject of investigation, not just in economics, but also in sociology and anthropology. With the turn towards so called post-fordist modes of production in the advanced developing countries, many workers were forced out of their formal sector work and into informal employment. In a seminal collection of articles, *The Informal Economy. Studies in Advanced and Less Developed Countries*, Alejandro Portes and collaborators emphasized the existence of an informal economy in all countries by including case studies ranging from New York City and Madrid to Uruguay and Colombia.

Arguably the most influential book on the informal economy is Hernando de Soto's *El Otro Sendero* (1986), which was published in English in 1989 as *The Other Path* with a preface by Peruvian writer Mario Vargas Llosa. De Soto and his team argue that excessive regulation in the Peruvian (and other Latin American) economies force a large part of the economy into informality and thus prevent economic development. While accusing the ruling class of 20th century mercantilism, de Soto admires the entrepreneurial spirit of the informal economy. In a widely cited experiment, his team tried to legally register a small garment factory in Lima. This took more than 100 administrative steps and almost a year of full-time work. Whereas de Soto's work is popular with policymakers and champions of free market policies like *The Economist*, many scholars of the informal economy have criticized it both for methodological flaws and normative bias.[citation needed]

In the second half of the 1990s many scholars have started to consciously use the term "informal economy" instead of "informal sector" to refer to a broader concept that

includes enterprises as well as employment in developing, transition, and advanced industrialized economies.

Concept of Informal Sector:

The informal sector covers a wide range of labor market activities that combine two groups of different nature. On the one hand, the informal sector is formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behavior of entrepreneurs that desire to escape state regulations.

The two types of informal sector activities can be described as follows:

- Coping strategies (survival activities): casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, multiple job holding;
- Unofficial earning strategies (illegality in business): (1) Unofficial business activities: tax evasion, avoidance of labor regulation and other government or institutional regulations, no registration of the company; and (2) Underground activities: crime, corruption - activities not registered by statistical offices.

The informal sector plays an important and controversial role. It provides jobs and reduces unemployment and underemployment, but in many cases the jobs are low-paid and the job security is poor. It bolsters entrepreneurial activity, but at the detriment of state regulations compliance, particularly regarding tax and labor regulations. It helps alleviate poverty, but in many cases informal sector jobs are low-paid and the job security is poor. The size of the informal labor market varies from the estimated 4-6% in the high-income countries to over 50% in the low-income countries. Its size and role in the economy increases during economic downturns and periods of economic adjustment and transition.

The concept of the informal sector was introduced into international usage in 1972 by the International Labor Organization (ILO) in its Kenya Mission Report, which defined

informality as a “way of doing things characterized by (a) ease of entry; (b) reliance on indigenous resources; (c) family ownership; (d) small scale operations; (e) labor intensive and adaptive technology; (e) skills acquired outside of the formal sector; (g) unregulated and competitive markets”. Since that time, many definitions were introduced by different authors and the ILO itself. The ILO/ICFTU international symposium on the informal sector in 1999 proposed that the informal sector workforce can be categorized into three broad groups: (a) owner-employers of micro enterprises, which employ a few paid workers, with or without apprentices; (b) own-account workers, who own and operate one-person business, who work alone or with the help of unpaid workers, generally family members and apprentices; and (c) dependent workers, paid or unpaid, including wage workers in micro enterprises, unpaid family workers, apprentices, contract labor, homeworkers and paid domestic workers.

Operationalizing the concept of informality for the purpose of measurement is not easy both because the two categories of the informal sector overlap and because the border between the informal and the formal sector is blurry. First, if unofficial earning strategies are exercised by a low-profit small enterprise with low quality working conditions, then workers of this enterprise and the enterprise itself can be classified as belonging to both informal market categories. An example of such a case is an unregistered one-person low-profit street trade enterprise - these characteristics combine unofficial and survival activities. Second, some formal market jobs or enterprises can be classified as informal if it is found that they have poor work protection or if the life style and opportunities they entail are considered undesirable. If the street trader from the previous example registers her enterprise, the enterprise and the trader herself could be categorized as belonging to the formal sector if the profit is considered above the survival level.

The Informal Sector by some other names:

Many of the names by which the 'informal' sector is called - as listed below - essentially characterizes it in terms of what it is not: it is not the formal sector (non-formal), it is not

controlled by the government (non-plan, hidden, unofficial, unrecorded), it is not legal (illegal, black, shadow) and it is not taxable (unrecorded, parallel).

But recent research and exploration on the issue has resulted in a more benign approach, where the names and definitions have used the characteristics of the sector itself (casual, family enterprise). Some emphasize its poverty focus (subsistence, petty commodity, one-person enterprise) as well as its 'temporary' nature (transient, intermediate). In reality, it is all of these taken together, that define all the characteristics of the sector!

Black Market
Casual Work
Clandestine Activities
Community of the Poor
Family-enterprise Sector
Hidden Sector
Informal Economy
Informal Opportunities
Informal Sector
Intermediate Sector
Invisible Sector
Irregular Sector
Lower-circuit of the Urban Economy
Non-Plan Activities
Non-Westernized Sector
One-Person Enterprise
Parallel economy
People's Economy
Petty Commodity Production
Shadow Economy
Trade-Service Sector



Transient sector
Underground Economy
Unobserved Economy
Unofficial Economy
Unorganized Sector
Unrecorded Economic Activities
Unremunerated Sector
Unstructured Sector
Urban Subsistence Sector

Urban Informal Sector: Definitions at a glance:

The urban informal sector, often called the urban subsistence sector/unorganized sector/unenumerated sector, is conceptually defined to include all economic activities which are not officially regulated and which operates outside the incentive system offered by the state and its institutions. In contrast, enterprises which enjoy official recognition, protection and support are defined as formal sector enterprises.

At the empirical level, the informal sector often is defined to comprise these economic enterprises which employ less than certain number of persons (e.g. 5 or 10, depending on the country's official procedures) per unit, and which simultaneously satisfy one or more of the following criteria: (a) it operates in open spaces, (b) it is housed in a temporary or semipermanent structure, (c) it does not operate from spaces assigned by the government, municipality or private organizers of officially recognized market-places, (d) it operates from residences or backyards, and (e) it is not registered.

The three facets of the informal sector are:

PEOPLE Labour force: analysis is made from labour market perspective (job search model, labour segmentation etc.)

ACTIVITY Economic enterprise/business/firms: analysis is made from the industrial organization perspective (market structure, market conduct, and market performance)

HABITAT Informal settlements (squatters and slums): culture of poverty thesis and similar sociological aspects used to dominate analysis; current trend is to use housing problems.

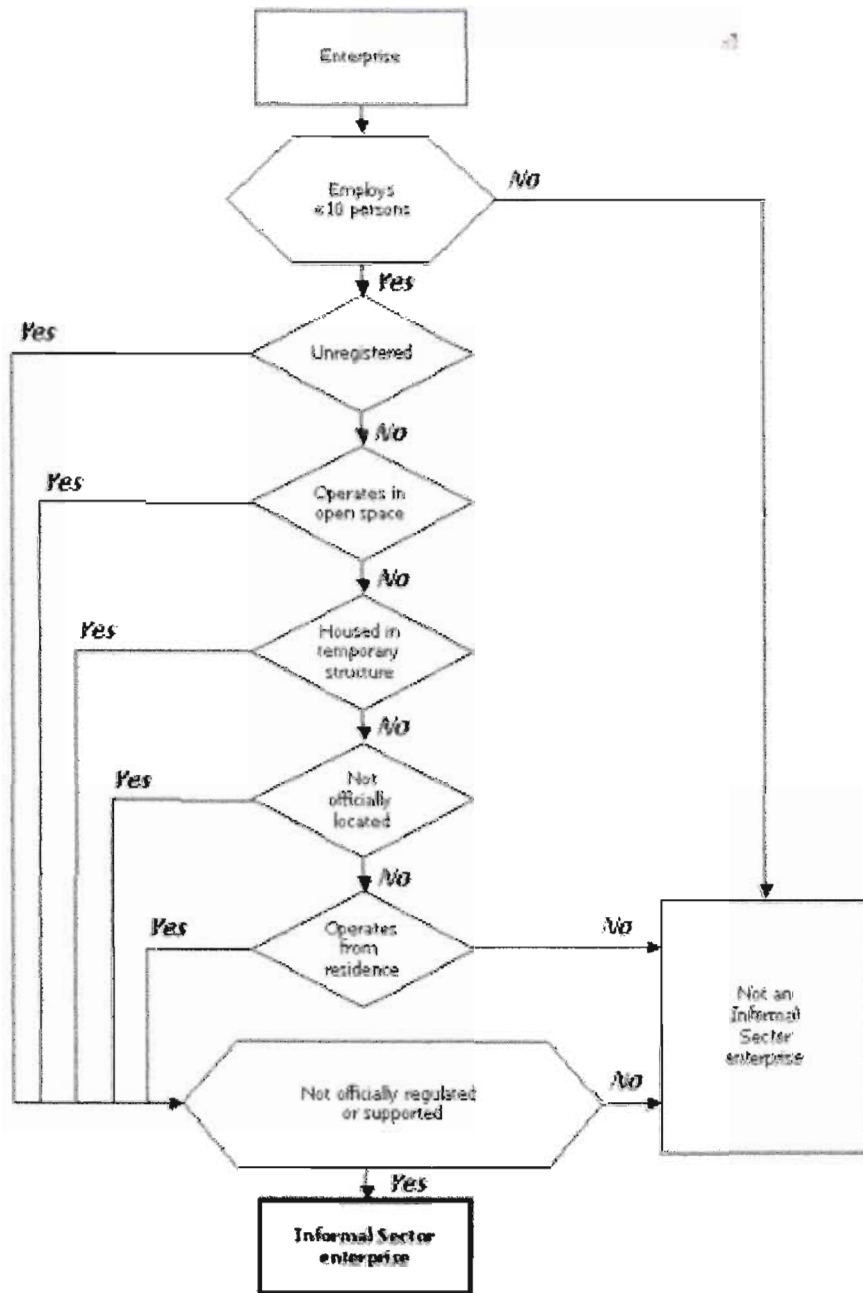
Decision Model for Identifying Informal Sector Enterprises in

Dhaka City: The following flow chart attempts to define the characteristics of enterprises in urban areas, particularly micro-enterprises, that can be called "informal". The flowchart also focuses on the unique features of informal sector enterprises (or 'what it really is'), rather than simply comparing/contrasting it to the characteristics of formal sector enterprises (or 'what it is not').

The flowchart positions a number of criteria that characterizes informal sector enterprises. These include, for example, number of employees or place of operation or registered enterprise.

Ultimately, if an enterprise employs less than 10 persons, satisfies any one of five criteria (unregistered, operates in an open space, housed in a temporary structure, not officially recognized, operates from a residence), and is not officially regulated or supported, then the enterprise can be called an informal sector enterprise.

The flow chart helps in better understanding the conditions within which an informal enterprise functions, and points to the areas where policy should focus on, rather than simply trying to 'eliminate' them since it is not 'formal'. For example, the criteria, "housed in a temporary structure" implies that it is necessary for us to focus positively and proactively on policies that provide good and environmentally safe working spaces, and not just on enforcing rules and standards that do not fit the situation of informal sector enterprises.



Decision Model for Identifying Informal Sector Enterprises in Dhaka City

Distinguishing Characteristics of the Informal Sector:

Employment, Enterprise, Habitat and Credit

Employment

Characteristics of the people engaged in the informal sector

- 1 Absence of official protection and recognition
- 2 Non coverage by minimum wage legislation and social security system
- 3 Predominance of own-account and self-employment work
- 4 Absence of trade union organization
- 5 Low income and wages
- 6 Little job security
- 7 No fringe benefits from institutional sources

Enterprise

- 1 Characteristics of the activities in the informal sector
- 2 Unregulated and competitive markets
- 3 Small scale operation with individual or family ownership
- 4 Ease of entry
- 5 Reliance on locally available resources
- 6 Family ownership of enterprises
- 7 Labour intensive and adapted technology
- 8 Absence of access to institutional credit or other supports and protections

Habitat

Characteristics of the informal sector land and housing

- 1 Unauthorized use of vacant public or private land
- 2 Illegal subdivision and/or rental of land
- 3 Unauthorized construction of structures and buildings
- 4 Reliance on low cost and locally available scrap construction materials

- 5 Absence of restrictive standards and regulations
- 6 Reliance on family labour and artisanal techniques for construction
- 7 Non-availability of mortgage or any other subsidized finance

Credit

Characteristics of informal credit markets

- 1 Unregulated and non-subsidized
- 2 Easy accessibility
- 3 Availability in very small size and for short terms
- 4 Low administrative and procedural costs
- 5 Little or no collateral requirements
- 6 Flexible interest rates (from very high to no interest at all)
- 7 Highly flexible transactions and repayments tailored to individual needs

Entrepreneurial Capacity

Early-stage businesses catch young entrepreneurs (25-34 years old) while more mature adults (45-54) own and operate established ventures. Men continue to lead women in starting businesses. The gender gap exists for both early-stage and established businesses, and in both country clusters. 'Already' employed workers -- in both middle and high-income countries -- most likely to start new businesses. More than 70% of early-stage entrepreneurs and more than 80% of established business owners work full time in their own businesses.

Education is key to success for every entrepreneur, in every country. Yet, the least educated are just as likely as the highly educated to own an established business in high-income countries. Entrepreneurs with ample income are more likely to start businesses and are more likely to own established businesses in high-income countries than middle-income countries.

Shaping the entrepreneurial mindset -- entrepreneurs, both early stage and established, are more confident in their skills, likely to know more entrepreneurs, alert to new opportunities, and rank low on the fear of failure scale. But fear of failure is more prevalent among individuals not involved in entrepreneurial activity than among people involved in it at any level and in all countries. Women worldwide are less optimistic, less confident in their entrepreneurial skills, and are more concerned about failure.

MAJOR SEGMENTS OF THE INFORMAL ECONOMY:

Status of Employment	Type of Enterprise
Owner Operator	Micro-Enterprise
Self-Employed	Own Account Unit, Family Business
Wage Worker	Micro-Enterprise, Sub-Contracting Chain, No Fixed Unit

Source: Chen, Martha.

Over the past two decades, employment in the informal sector has risen rapidly in all regions. It was only the once-rapidly-growing economies of East and Southeast Asia that experienced substantial growth of modern sector employment. However, even in these countries, a significant percentage of women workers were in rural and informal employment before the Asian financial crisis: for example, 43 percent of women workers in South Korea and 79 percent of women workers in Indonesia. Moreover, in the wake of the recent crisis, most of these countries have experienced a decline in formal wage employment and a concomitant rise in informal employment.

Even before the Asian crisis, official statistics indicated that the share of the informal sector in the non-agricultural workforce ranged from over 55 percent in Latin America to

45-85 percent in different parts of Asia to nearly 80 percent in Africa. The contribution of the informal sector - not only its size - is quite large. The contribution of informal sector income to total household income is significant in many regions: for example, in several African countries, informal sector income accounts for nearly 30 percent of total income and over 40 percent of total urban income. The contribution of the informal sector to GDP is probably also significant. For those countries where estimates exist, the share of the informal sector in non-agricultural GDP is between 45 to 60 percent.

SIZE OF THE FORMAL ECONOMY: Share of Formal Wage Employment in Total Employment

Low-Income Countries	Middle-Income Countries	High-Income Countries
17%	58%	84%

Source: World Development Report 1995. Washington, D.C.: World Bank.

SIZE OF THE INFORMAL ECONOMY

Informal Sector Share Of:	Latin America / Caribbean	Africa	Asia
Non-Agricultural Employment	57%	78%	45%-85%
Urban Employment	40%	61%	40%-60%
New Jobs	83%	93%	N/A

Source: Charmes, Jacques. 2000. ;Informal Sector, Poverty, and Gender: A Review of Empirical Evidence. Paper commissioned for World Development Report 2000/2001. Washington, D.C.: World Bank.

The informal economy is a major growth sector:

- The informal sector accounts for large share of output and employment

- The informal sector accounts for more than half of non-agricultural employment in Latin American and the Caribbean, nearly half in East Asia and as much as 80 percent in other parts of Asia and Africa
- The informal sector is responsible for 93% of new jobs in Africa and 83% in Latin America and the Caribbean
- Nearly three-fourths of manufacturing in South East Asia is done by informal sector workers
- For those countries where estimates exist, the informal sector accounts for 45 to 60 percent of non-agricultural GDP

Conclusion

From the analysis of the survey conducted among 30 respondents who are owner of informal sector business, it can be concluded that the owner of informal sector business who take the work in informal sector are more satisfied and independence. "Informal sector" to refer to a broader concept that includes enterprises as well as employment in developing, transition, and advanced industrialized economies. The informal sector covers a wide range of labor market activities that combine two groups of different nature. On the one hand, the informal sector is formed by the coping behavior of individuals and families in economic environment where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behavior of entrepreneurs that desire to escape state regulations.

References

➤ Websites: <http://www.sciencedirect.com>

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