

# Socio-Economic Analysis of Informal Business Activities: A Case Study on Central Business District Area of Dhaka City

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## Abstract

The purpose of this study is to explore the present status of informal business activities of Central Business District (CBD) area of Dhaka, capital city of Bangladesh and issues regarding socio-economic development of it. Data for the study is collected from a sample of 153 informal business workers within Motijheel area, the CBD of Dhaka city. A semi-structured questionnaire is used to generate survey data and then analyzed through simple statistical methods. Demographics of the respondents show that most of them are young and middle aged with limited educational qualification. They face shortage of capital as majority relies on their own savings. Moreover, maximum workers have monthly income below than BDT 15,000. However, almost all of them are willing to expand current business, though many find it competitive enough. The study will be useful to the policy makers for improving present status of the informal workers. From the government level, policy can be initiated for better environmental planning as well as improving socio-economic conditions of the informal business workers. However, the study opens the scope for further comprehensive study in related development areas.

**Keywords:** Informal Sector, Informal Business Activities, Central Business District, Socio-economic analysis, Bangladesh

## 1. Introduction

The term informal sector was first introduced by Keith Hart in 1973. The informal sector is one portion of the economy, which is not taxed, not monitored, and not acknowledged by the government and as well as not comprised in the gross national product (GNP) and gross domestic product (GDP) of a country (Becker, 2004). It is also known as informal economy, shadow economy, grey economy. Moreover, The employment in the informal sector can be categorized as a) *Self-employed*, i.e., own-account workers, b) *Wage workers*, i.e., employees of informal business, and (c) *Employers*, i.e. owners and owner operators of informal enterprises (Becker, 2004).

However, according to World Bank, the informal businesses comprise of two types of labor market activities. First one is the coping strategies, which are casual jobs, temporary jobs, unpaid jobs, subsistence agriculture, and multiple job holding. The other one is the unofficial earning strategies which are tax evasion, avoidance of labor regulation and other government or institutional regulations, no registration of the company and also underground activities: crime, corruption - activities not registered by the government. Thus, informal business activities generally considered as a labor-intensive small scale business operation which requires lower capital and less skills.

For decades, it was assumed by the economists that the right mix of economic policies will wipe out the traditional informal activities as the modern formal sector will grow and require more labor. However, many countries could not create a good labor market, hence informal business is still a major part of employment (ILO, 2013). Schneider (2002) in the assessment of the informal business activities in 110 countries found that, the average size of the informal economy as a percent of the Gross National Income (GNI) was 41% in developing countries, 38% in transition economies and 18% in Organization for Economic Co-operation and Development (OECD) countries. Hence, the informal proportion is a common and persistent economic feature of most developing economies, contributing significantly to employment creation, and revenue generation.

Location wise, the informal business operations take place in three places, e.g., a) neighborhood residences, b) industrial sites and vicinity and c) the central business district (CBD) (Chirisa, 2009). CBD is the mostly favored place for the informal business activities as it has many advantages over the places of the city

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(Hlohla, 2008, Adom & William 2012). In fact, CBD is the place where the informal business operators can offer a higher price which can maximize their profit (Kamunyori, 1999). CBD is an urban planning term which means the city center or downtown or hub of formal economy. Although CBDs are driven by formal sector, it also houses slums and squatters which allow informal business activities to function and grow (Wilson, 1996).

Therefore, informal business activities play a very important role in the employment of developing countries and the same is very true for the case of Bangladesh. Asian Development Bank (ADB) and Bangladesh Bureau of Statistics (BBS) conducted a labor force survey (LFS) prior to 2010. This survey revealed that about 89% of total employment is in the informal proportion of the economy. This informal business employment is predominant in the rural areas than urban areas. Rural informal businesses are comprised of agricultural and other unpaid household works. On the other hand, 76% of the urban job market is in the informal businesses. These jobs are concentrated mainly in Dhaka, Chittagong and Rajshahi city. The informal portion of the economy accounted for more than 40% of total gross value added in Bangladesh in 2010. Therefore, ADB suggested conducting a survey on informal businesses in a regular basis to understand the dynamics of the area and to structure more efficient policies for the improvement.

Moreover, regular monitoring of these activities is also essential to the policy makers. From this urge, this research has been conducted to study socio-economic conditions of informal business workers operating in Motijheel area, the CBD of Dhaka city, Bangladesh. The objectives of the study include:

- I. To explore the nature of informal business activities in Dhaka city.
- II. To identify the socio-economic status of the informal business workers.

The outcomes of these objectives are supposed to have important implications for the policy makers, urban planners and the development organizations.

The remainder of this paper is organized as follows. Section 2 reviews the literature on informal business. The methodology is proposed and described in Section 3. Section 4 provides results and discussions on statistical analysis from the survey, and the conclusion and policy making implications are presented in Section 5.

## 2. Literature Review

Economy of a nation is structured by contribution from both formal and informal business activities. A study conducted by Rahman (1992) showed that formal and informal sector workers can be easily distinguished in terms of education, income and wealth level. However, the informal sector has shortages in all these factors. Until now, the formal work environment has undergone a process of rapid transformation in the context of globalization and technological change, leaving the majority of the workforce in the informal business. Additionally, the inadequate capacity of the formal sector institutions is forcing less skilled and knowledgeable workers to the informal sector (Titumir & Hossain, 2003). Besides, Khamis (2009) presents a substantial degree of variation across the different categories of individual characteristics like age, education, marital status, while analyzing various dimensions of informality in Mexican labor market. In addition, a score by the Raven's test also clearly supports the variation across these different categories.

While assessing the level and impact of informal business activities in socio-economic conditions of a country, the majority of the employment of the developing countries is coming from the informal area. Like other countries, according to the Country Report by Asian Development Bank (2010), in Bangladesh, informal employment is estimated at about 89% of the total number of jobs in the labor market. It is more widespread in the rural areas than in urban areas. Moreover, women are more likely to be under informal employment arrangements.

However, based on the world context, the contribution of informal or shadow economy to gross domestic product (GDP) varies from region to region. Schneider, Buehn, & Montenegro, (2010) presents estimations of the shadow economies for 162 countries, including developing, Eastern European, Central Asian, and high-income countries over the period 1999 to 2006-07. According to the estimations, the weighted average size of the shadow economy (as a percentage of "official" gross domestic product) in Sub-Saharan Africa is 38.4 percent; in Europe and Central Asia (mostly transition countries), it is 36.5 percent, and in high-income OECD countries, it is 13.5 percent.

Thus, it is obvious that informal sector is a 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. Bangladesh is also experiencing a growing state of informalization over the years. It is evident that, job crisis in formal sector, increased level of poverty and low requirement for skills are more influential factors responsible for the increased labor in informal business areas (Ali, 2013). However, despite notable contribution of informal business activities to GDP, this sector's workers are not out of troubles. In Bangladesh, the specific problems are the absence of rights and social protection of the workers involved in it (Alam, 2012). Consequently, as informal business workers in Bangladesh are largely dominates the labor market and constitute significant part of labor force, concerned authority should show much concern to improve their working condition, earnings, job security and social security (Sarker & Khan, 2013).

A detailed planning thus more important in this regard, as unplanned growth of informal business activities are always a problem for planned city development. Urban planning in developing countries particularly in cities with rapid urbanization is facing a problem with the informal business. The informal businesses are typically operate on streets and in other public places, are often seen as eye-sores and undesirable activities. Thus, conflicts arise between urban authorities trying to keep their cities clean and the urban informal business operators who need space for their activities (Rukmana, 2007). Moreover, environmental management is also being affected by unplanned growth of informal business activities. However, it is seen that environmental problems associated with the informal businesses are mostly demonstrated of unresponsive physical planning systems rather than attributes inherent to the sector's respective activities (Perera & Amin, 1996).

In the contrary to these findings, there is still a gap in the knowledge about the nature of informal businesses activities and its socio-economic status in Dhaka city. A rigorous examination in this regard might be helpful for policy makers to improve socio-economic condition of these workers as well as other dwellers of the city. In this regard, so far in the concern of the researchers, research related to exploring present status of informal business activities in Dhaka city is limited. Hence, a research concerning this issue would be more useful in future.

### 3. Methodology

After getting the contextual framework and reviewing relevant literature in the previous two sections, this segment is detailed on the research approach and methodology engaged to generate the necessary data for addressing the research issues. This study aims at exploring the status of informal business activities of CBD area of Dhaka city of Bangladesh. Since there has been no prior study or database, the goal requires the study to first explore the core representative status. On these regard, a qualitative approach with using survey questionnaire might be more effective.

Based on the importance of deciding research issue, researchers throughout the world adopt any of the two different types of research approaches, namely, the quantitative and qualitative research methods. A qualitative approach takes a descriptive, non-numerical path to collect and analyze information, to understand the phenomenon. Researchers point number of advantages to using this approach as it involves alternative conceptions of social knowledge, of meaning, reality, and truth in social science research (Kvale, 1996). This procedure is also endowed with a way to accessing unquantifiable facts and seeking answers to questions by investigating social settings and those individuals who restrain the settings (Berg, 2001).

Moreover, qualitative research provides flexibility and greater validity. The flexibility of the process might be a good alternative to understand the informal business activity better since the real-life workings of this area can vary across a wide range of issues within the core elements. However, the qualitative approach is not without its shortcomings, this type of study generally uses small samples, which might not be representative or typical, and therefore valid simplification is not possible (Hakim, 1987). Reliability and transparency also low for qualitative methods (Berg, 2001; Bryman, 2001). Berg (2001) also suggested that it is very time-consuming and leads to weaker forms of measurement.

Questionnaires offer a method of conducting a survey where all respondents are asked exactly the same questions in the same circumstance (Easterby-Smith et al., 1991, 1999; Li et al., 2000; Merriam, 1988; Payne, 1980). Surveys are mainly useful in unfolding the features of a large population (Babbie, 2004). These benefits are exactly why this study has undertaken a questionnaire survey to outline the present status of informal business activity in Dhaka city of Bangladesh. The questionnaire survey allows the researcher to obtain socio-economic data relating to a large number of informal business workers that would otherwise be beyond the physical reach of the researcher. The survey will ensure reliability by asking the same questions to all respondents and will eliminate unreliability by providing standardize stimuli to all respondents.

The findings of this research can be used to decision making in the socio-economic aspects of informal business activities. Thus study requires a representative survey on informal business workers in the CBD area of capital city. In this regard, a non-probability sampling technique has been adopted for survey which relied on the personal judgment of the researchers. A convenient sampling technique was used as it is least expensive, least time consuming, most convenient however there it possess the possibilities of selection bias (Sultana, Siddique, & Islam, 2015).

Primary data is collected from around 153 informal business workers from the CBD area of Dhaka city by survey method through a semi-structured questionnaire. As total population cannot be determined or open in nature, sample size in this regard are assumed around 150 would be representative. The survey is conducted between the time period, June 2014 and August 2014. Besides, a semi-structured questionnaire helps to generate unfold thoughts and views of the respondents with some structured stimuli. Additionally to match with the scope of the study, underground and/or illegal business activities are ignored in determining sampling frame. Numbers of descriptive statistics has been used to present the socio-economic condition of the informal business workers.

The secondary data is generated from different journals, text books and internet sources.

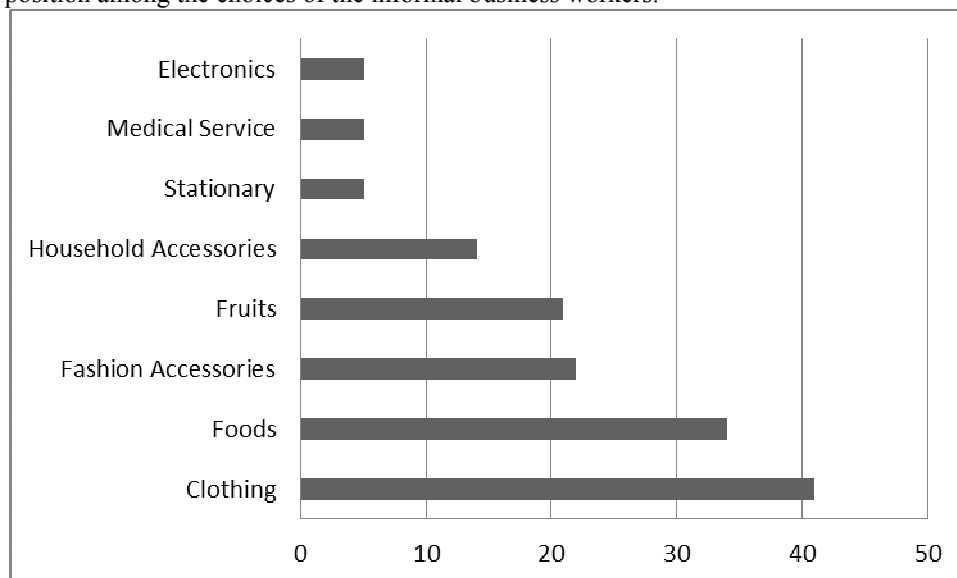
#### 4. Results and Discussions

Table 1 represents the age range of the informal business workers. Among these, 39% respondents are from 21 to 30 years age group, 27% are in the 31 to 40 age range, and only 1% respondents are aged above 60.

**Table 1: Age range of the respondents**

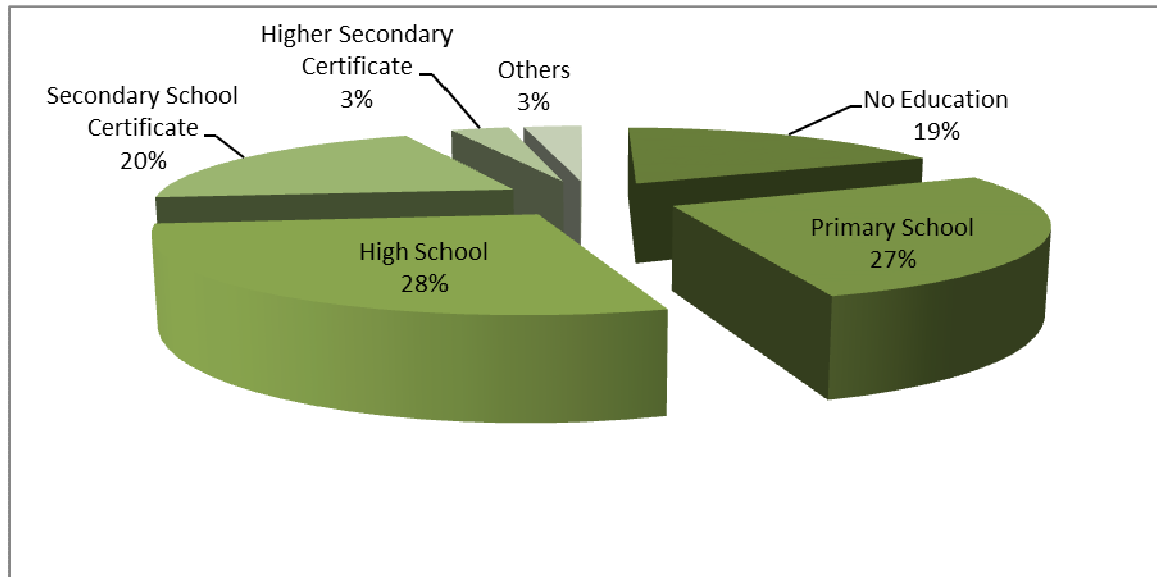
<i>Age Range</i>	<i>Frequency</i>
11-20	13
21-30	59
31-40	42
41-50	21
51-60	16
61-70	2

Occupation of the respondents are categorized into main eight groups, namely, Clothing, Foods, Fashion, Accessories, Fruits, Household Accessories, Stationary, Medical Service, and Electronics. From the figure 1 it can be seen, 28% of the people are engaged in clothing business, and food business (23%) comes in the second position among the choices of the informal business workers.



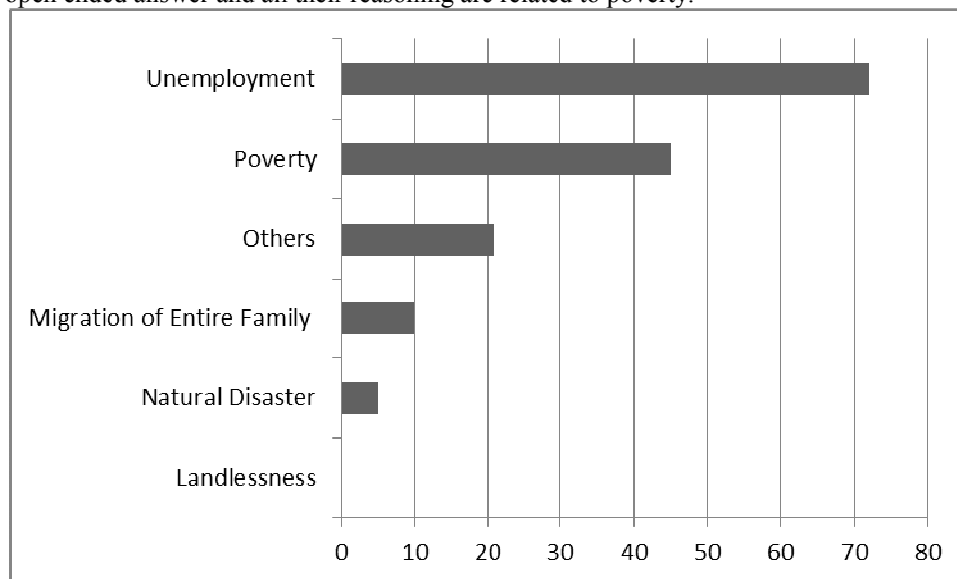
**Figure 1: Occupation of the respondents**

The figure 2 represents the education levels of the respondents. 19% people has no formal educational background, 27% of the respondents completed their primary level of education, which means they have studied up to 5<sup>th</sup> grade, and 28% of the workers went to high schools. There are 20% respondents with secondary school certification. Few of them people also completed Higher Secondary education.

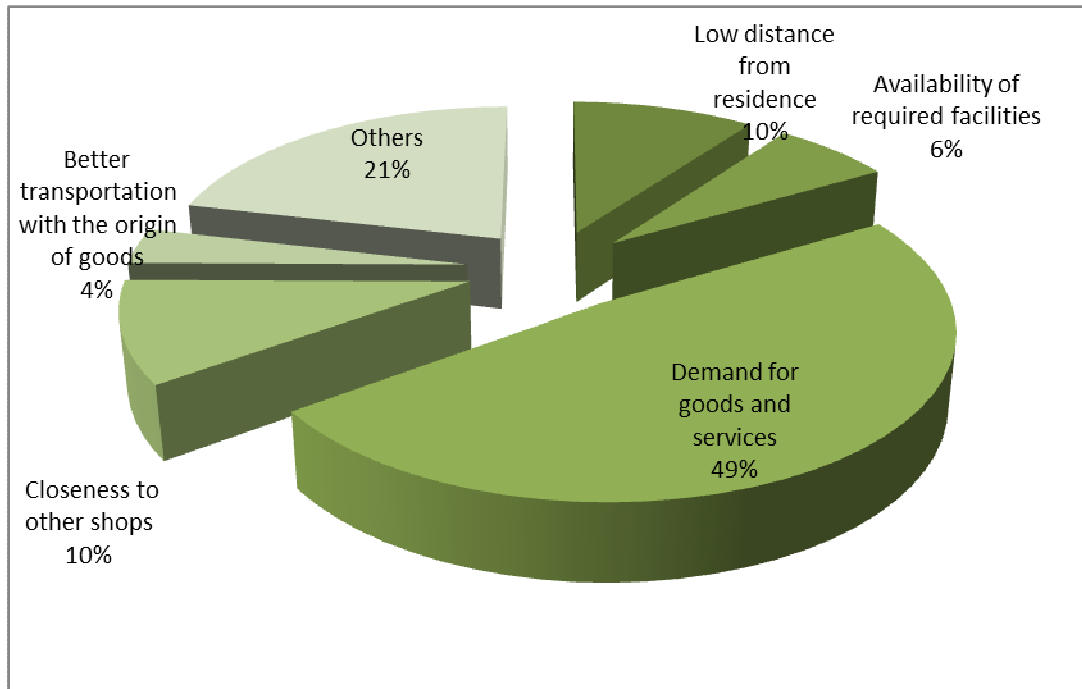


**Figure 2: Level of education of the respondents**

According to previous studies related to informal business activities, there are five major reasons for migrating to urban areas, e.g., poverty, unemployment, natural disaster, landlessness and migration of family. Results on reason for coming to Dhaka are shown in the figure 3. From the survey we came to know that approximately half of the people moved to Dhaka city due to unemployment. Approximately 30% of the respondent moved to Dhaka city due to poverty. Although, landlessness is one of the important factor in migrating to city areas no one among the respondents mentioned this reason. However, there are 14% people chosen the open ended answer and all their reasoning are related to poverty.



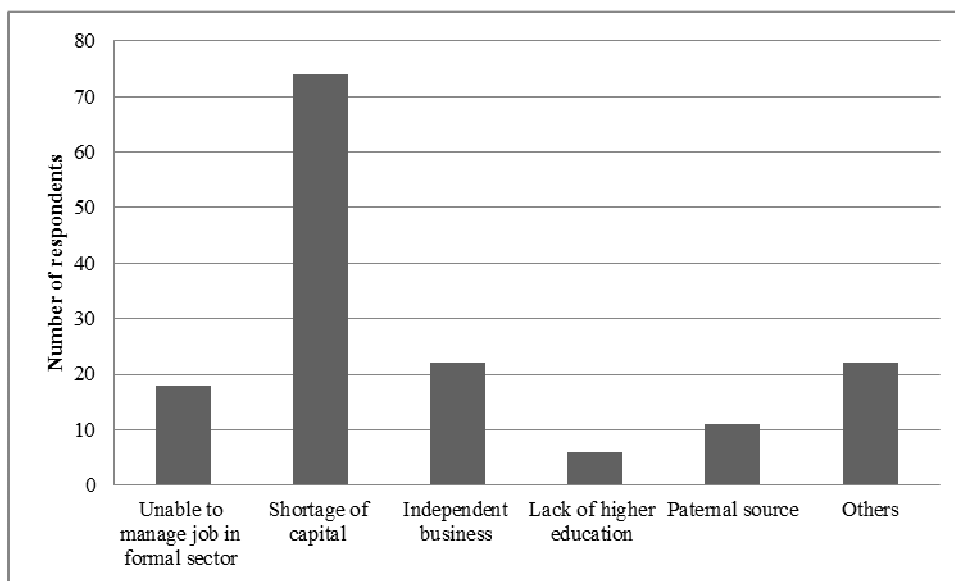
**Figure 3: Reasons for coming to Dhaka**



**Figure 4: Causes of selecting the location**

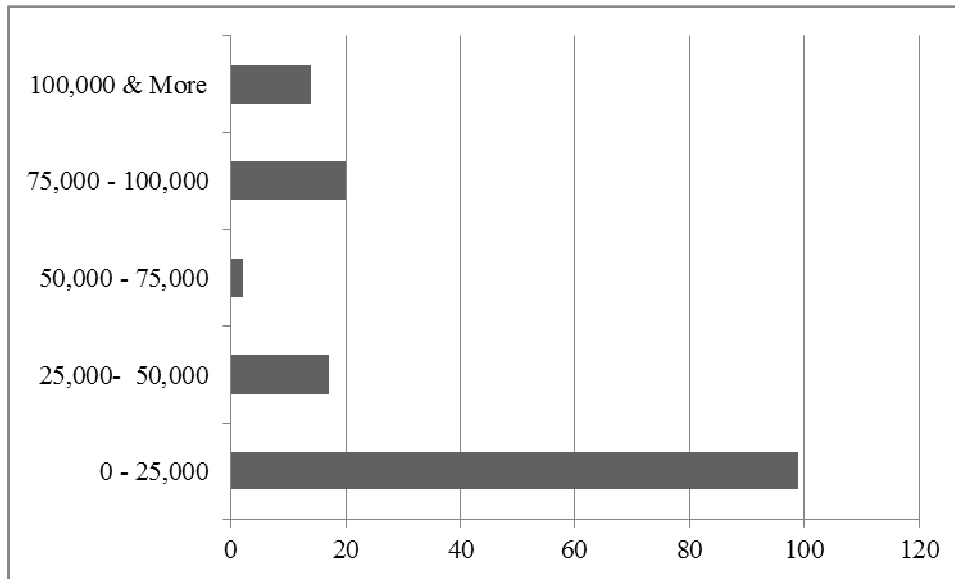
The figure 4 shows that, around 49% of total respondents selected the location of their business on the basis of local demand. Both the causes of low distance from residence and closeness to other similar shops were motivating factors for respondents to choose the location. Both of these groups represent around 10% each. While 6% of total respondents think, selected location has availability of required facilities, only 4% think, their location has better transportation with the origin of goods. Other than these major relevant causes, 21% of total respondents expressed some other causes all of which are tailored by their own perceptions and favorability.

Respondents were asked to mention the reason behind choosing their profession. Results in figure 5 shows that 50% of the workers refer to the shortage of capital for starting a business in the formal sector. 12% of the respondents were job seeker in the formal sector, but joblessness brought them in this informal business. Moreover, 15% people prefer doing independent business. Among the respondents 4% thinks that lack of proper education is one of the factors which drive people into informal business.



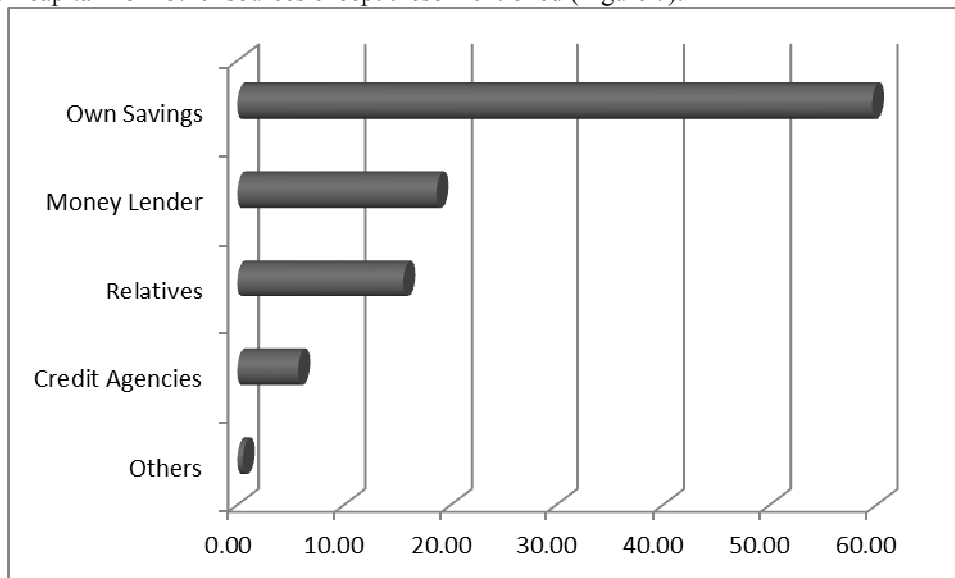
**Figure 5: Reason for choosing informal business activities**

The values of assets of the respondents are shown in the figure 6. It can be seen that, majority (65%) of the respondents has assets with a value not more than BDT 25,000. Second largest proportion (22%) of the respondents has asset value range from BDT 75,000 to 100,000 or more than that. However, only 13% of total respondents have a value from BDT 25,000 to 50,000.



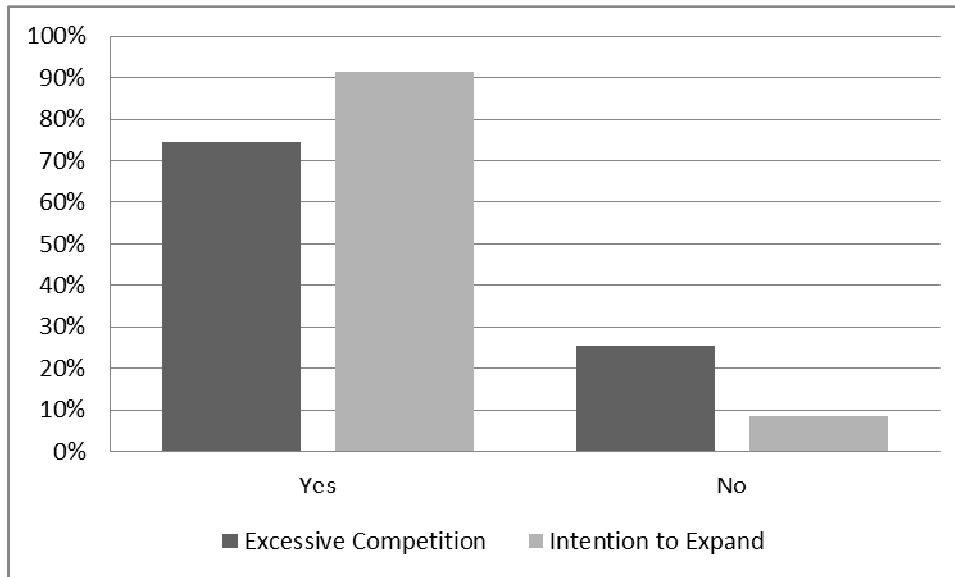
**Figure 6: Value of asset**

Around 60% of total respondents sourced their capital from own savings. Other than that, around 15% of informal business workers borrowed money from relatives as capital either as only source or addition to their savings. In addition to that, around 19% of them sourced their capital from local money lender, which are usually known as ‘Mohajon’, with a higher rate of interest. Besides, near to 6% respondents could arrange a credit facility directly from micro credit agencies with similar higher interest. Below than 1% of total respondents, sourced their capital from other sources except these mentioned (Figure 7).



**Figure 7: Source of Capital**

Respondents when asked about the level of competition they face as well as intention to expand, they showed some interesting phenomena. While around 75% respondents agreed that, they face excessive level of competition in that particular locality (figure 8); they were overwhelmed to show their intention for further expansions. Figure 8 shows that, around 92% of total respondents want to expand their business while 8% have no such incentives. In contrast to their intention to expand, around 25% respondents found no competition pressure.

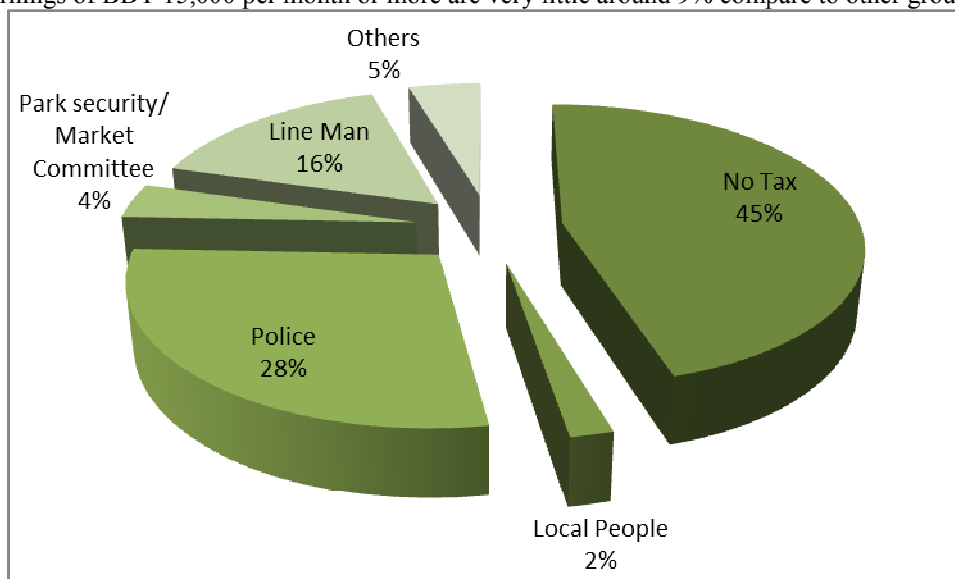


**Figure 8: Perception to the Competition & Expansion**

**Table 2: Monthly earnings**

Monthly Earnings in BDT	Percentage
Less than 5,000	19%
5,000-10,000	44%
10,000-15,000	28%
15,000-20,000	5%
20,000-25,000	2%
More than 25,000	2%

With the level of capital and perception of competition, while respondents were asked to mention their monthly earning, around 91% of total respondents have monthly income not more than BDT 15,000. Among this range, table 2 shows that, monthly average income is highest in the range of BDT 5,000 to 10,000 while BDT 10,000 to 15,000 are in second position and third is the group of earning not more than BDT 5,000. Respondents with the earnings of BDT 15,000 per month or more are very little around 9% compare to other groups.



**Figure 9: Payment in the name of tax**

People involved in informal business activities usually do not provide any type of government taxes that actually added to government account. But to continue their survival they have to provide some sort of money to local agents, authority or people which they perceive ‘tax’ in their knowledge. According to figure 9, around 55% of total respondent provide this types of ‘tax’ to different group of people including Lineman of the



territory, Local People, Park Security, Market Committee, Police and others. In contrast to this view, another group consisting 45% of total respondent believe, they don't need to provide any sort of 'tax' or money for continuation of their business.

## 5. Conclusion

Assessing prevailing status of the informal business workers provides some traditional insights. The demographic status of the informal business workers indicates that, mostly young and middle aged (21-40) people works in this area. Moreover, education level, as a delineator of the social status, reveals 48% went to high schools and around half of them completed Secondary School Certificate (SSC). Limited capabilities in employment with lower level of education push them to move to capital city. Such a rush toward capital city can reduce, if government initiates a structured planning for employment diversification. However, majority of the respondents are involved in clothing business followed by foods and beverage.

Shortage of capital is the main reason behind choosing informal business. Majority of them (around 65%) have capital valued not more than BDT 25,000, which indicates the prevailing poor economic conditions of them. Moreover around 13%, in addition to that major group, have asset not more than BDT 50, 000. Findings easily match with the socio-economic condition of Bangladesh where around 80% are poor. In addition to that, as capital structure backed by credit facility is usually limited for informal business, 60% of total workers prefer to rely on their own savings. Other than that, around 15% of them borrow from relatives in addition to their savings or as a sole source.

The study exposes that around 92% of total respondents have monthly income not more than BDT 15,000. Such a little amount of income indicates their economic status in the society as well as their ability to contribute to the national economy. In this regard, none of them actually provide any types of governments taxes that could added to government account. While 45% of the workers do not need to provide any sort of money to anybody, more than half around 55% provide payment to different groups of people including Lineman of the territory, Local People, Park Security, Market Committee, Police and others which they perceive as 'tax' in their knowledge. Not only this portion but also majority might contribute to government income if a favorable tax mechanism can be implemented.

In addition to these, respondents show interesting attitudes when asked to measure their level of competition and intention to expand. While 75% of them agreed that, they face excessive level of competition in that particular locality, they were overwhelmed to show their intention for further expansions (92%). Moreover, when assessed the preference of location for present and future expansion, around half of total workers prefer a location based on local demand of their business while others prefer own different needs.

This study is aiming to help policy makers in the area of both urban planning and socio-economic developments. Thus it will be useful for improvement of present condition of the informal workers. Moreover, government authorities, for instance, city planners can use it as a guide for further environmentally friendly urban planning. This is assumed to be a unique study for informal business activities in CBD area of Dhaka City, which creates the opportunity for further studies in this regard. For example, factors for selecting locations, occupation and improving economic status of workers in informal business can be further studied. However, as study addressed only a limited number of respondents, it can be further extended for a broad area or region. Thus opens up the opportunity for rigorous research related to this study.

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