

Abstract:

The informal sector accounts for the majority of employment in many developing countries, yet its role in growth, and its links with the formal sector, are poorly understood. Although countries with higher per-capita income tend to have lower levels of informality, many individual economies have grown substantially with little change in the share of informal employment. We use the case of Bangladesh to study the nature of the relationship between the formal and informal sectors, and the role that the informal sector plays in creating value added and employment growth. The study will also conduct a survey of workers to examine whether workers are "locked" into informal employment or whether they move between different types of employment; and if so, what triggers those transitions. This paper presents preliminary evidence on the relationship between informal and formal employment, by considering the effect of an increase in sectoral output on both types of employment. Demand for Bangladesh's exports – particularly from the garment sector – has risen rapidly over the past 20 years. This increase in exports increases employment not only in exporting sectors, but also in the sectors that are linked to exporting sectors through the supply chain. We use the increase in direct demand for exports, as well as the indirect demand for goods and services through supply chain effects, to examine how increased sectoral output affects the levels and shares of both formal and informal employment.