

Transitions Between Informal and Formal Employment: Results from a Worker Survey in Bangladesh

Italo A. Gutierrez, Krishna B. Kumar, **Minhaj Mahmud**,
Farzana Munshi, and Shanthi Nataraj

Citation: Italo A. Gutierrez & Krishna B. Kumar & Minhaj Mahmud & Farzana Munshi & Shanthi Nataraj, 2019. "[Transitions between informal and formal employment: results from a worker survey in Bangladesh](#)," [IZA Journal of Migration and Development](#), Springer;Forschungsinstitut zur Zukunft der Arbeit GmbH (IZA), vol. 9(1), pages 1-27, December.

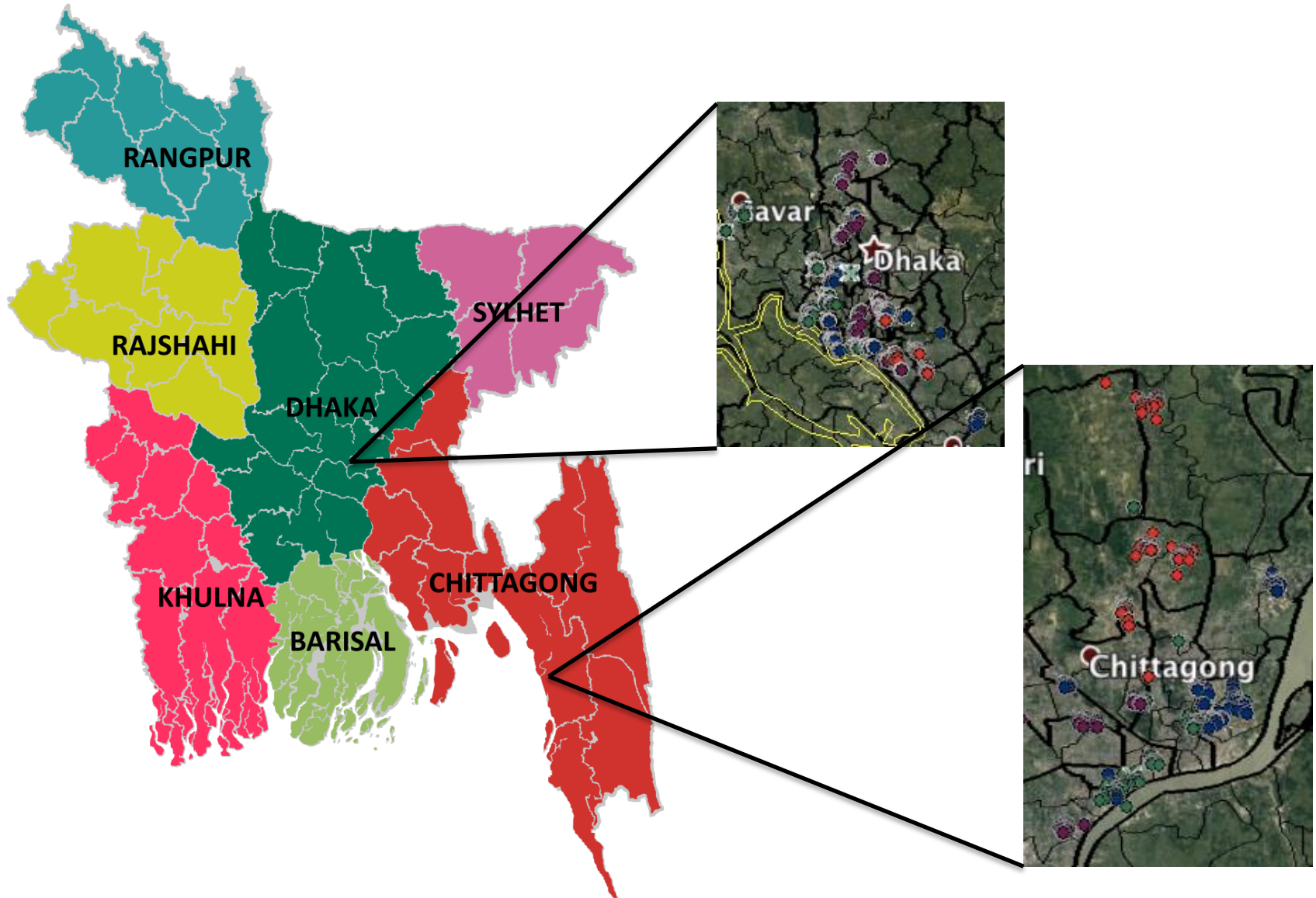
Summary

- We study transitions between different types of formal and informal employment using retrospective job histories from a new survey in Bangladesh.
- Workers transitioning between jobs are most likely to remain in the same type of employment, although there is still substantial churn across employment types.
- Private wage employees have higher probability of transitioning to a new job, and changes in earnings and benefits suggest evidence of upward mobility.
- Nevertheless, there is also non-trivial risk of downward mobility, especially for those transitioning into casual employment, which has the lowest level of earnings and benefits and the highest levels of exposure to workplace hazards and violence.
- Overall, the informal sector appears to include subpopulations consistent with both the traditional view that it is a segmented portion of the labor market with few prospects of upward mobility, and with the alternative view that it is a dynamic, entrepreneurial alternative to wage employment.

We Conducted a Survey of Workers from April-June 2016

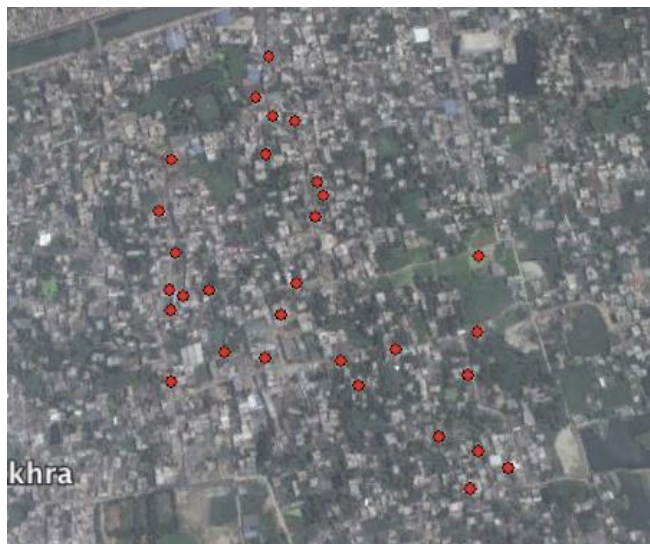
- ~2,000 workers in Dhaka, Chittagong and surrounding urban areas of these districts
- Survey modules
 - Basic demographics
 - Job history (current + 2 previous jobs in past 15 years)
 - Benefits (for wage workers)
 - Business characteristics (for self-employed and family members)
 - Working conditions
 - Choice experiment to elicit valuation of different aspects of formality

Survey Locations

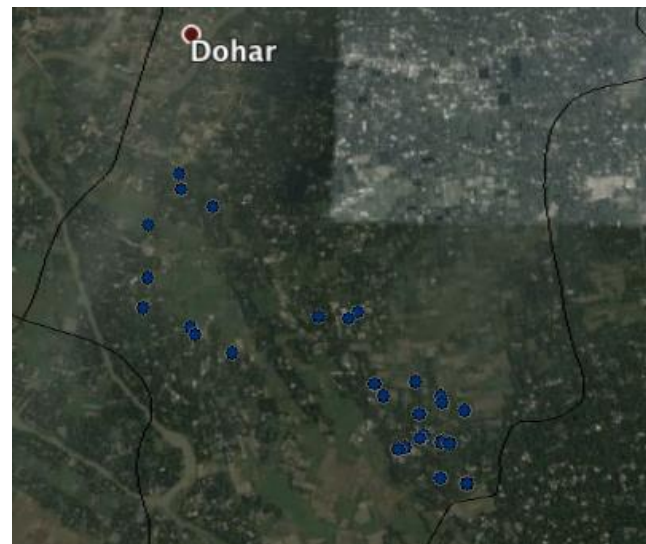


Sampling Methodology: First Stage

- PPS draw of 80 “mouzas” in Dhaka, Narayanganj, Gazipur, Chittagong
- Random walk method to find households
- First stage enumeration of *all* HH members



Matuail, Jatrabari Thana



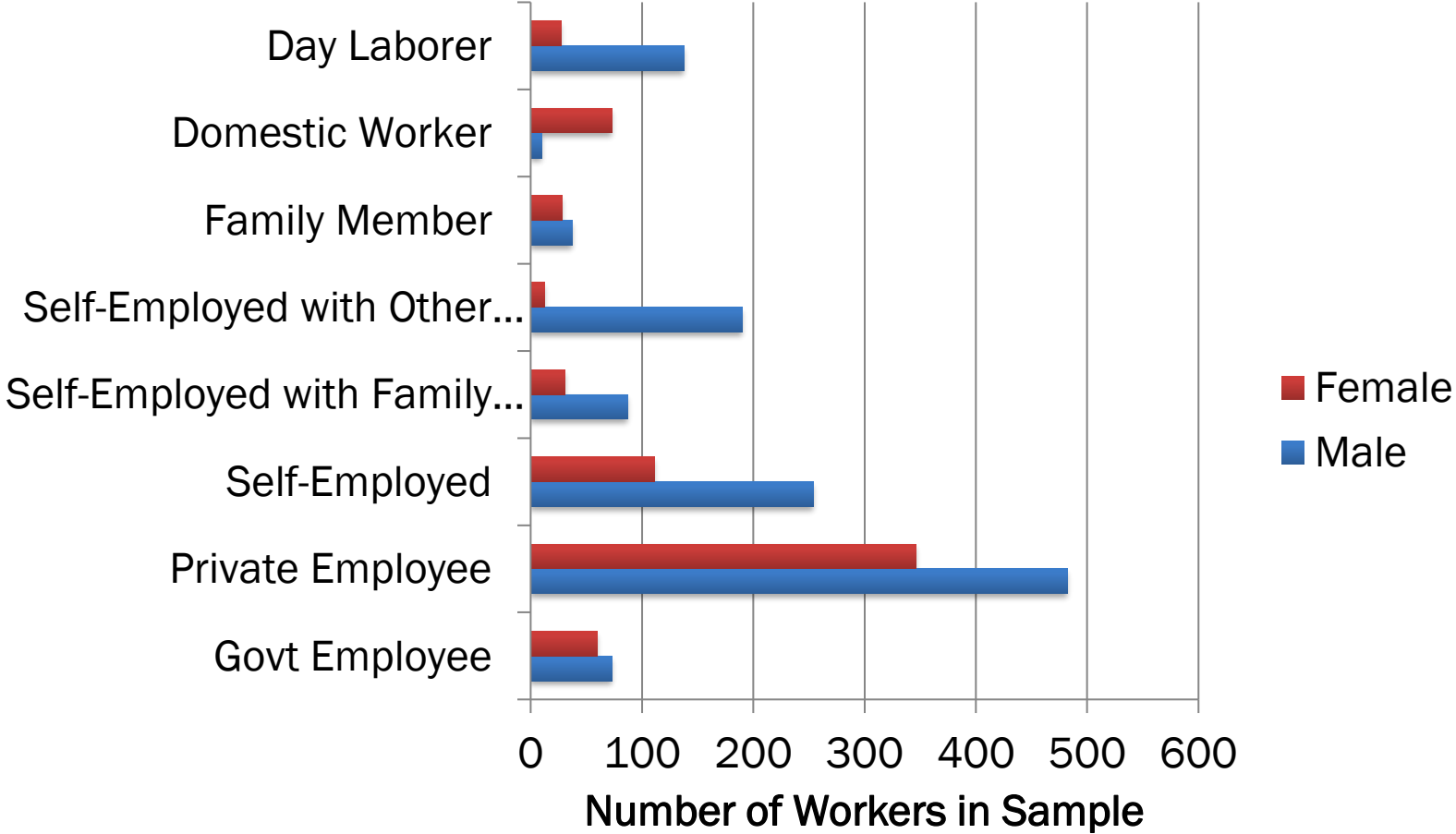
Nurpur, Dohar Upazila

Sampling Methodology: Second Stage

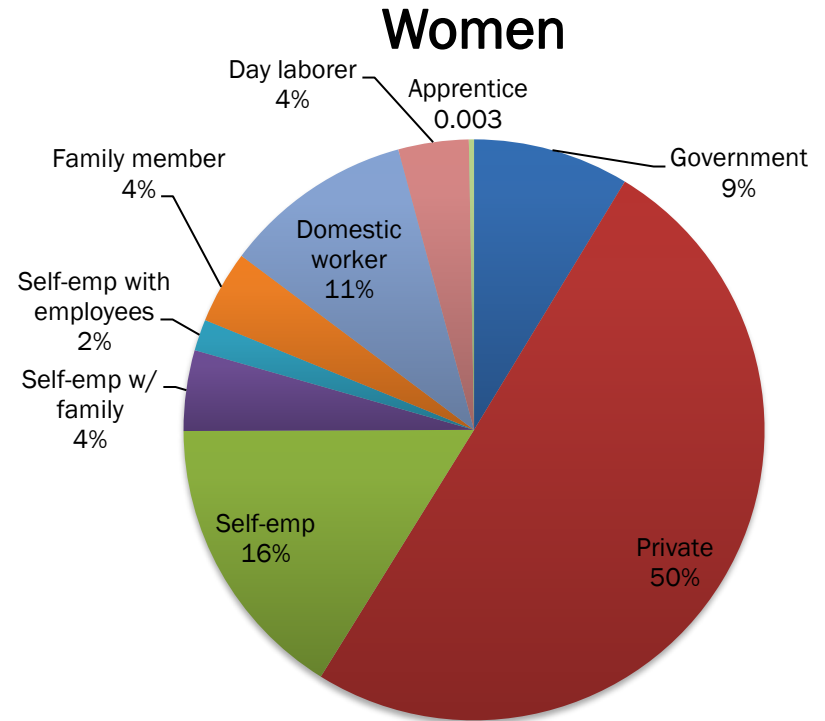
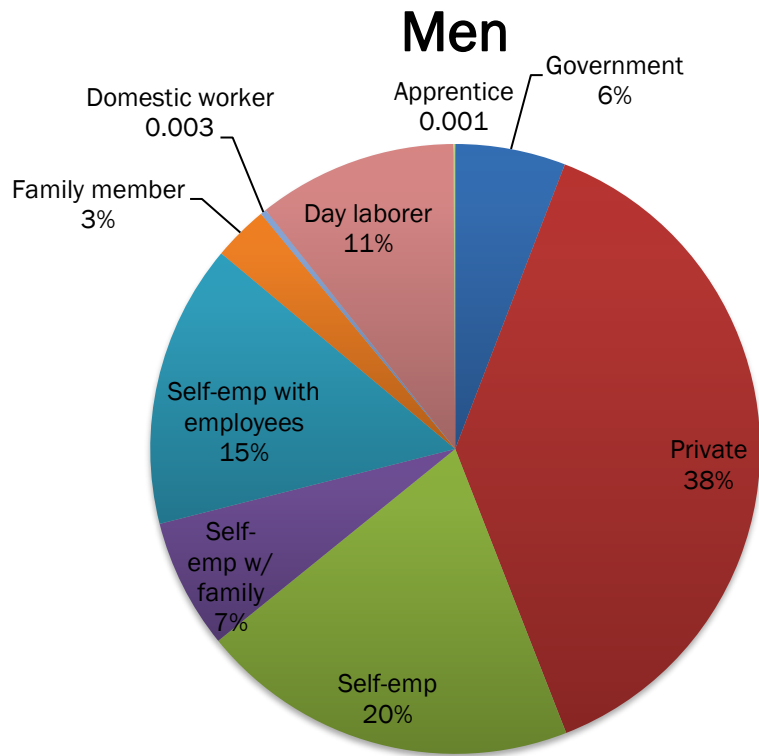
- Sample of working adults stratified by gender, type of worker
 - Surveyed *all* women
 - Surveyed *all* men in relatively small employment types (starred below) and randomly sampled men in larger employment types

Government employee	Self-employed, no employees
Private employee	Self-employed, hiring only family members
Domestic worker*	Self-employed, hiring non-family members
Day laborer	Family member in HH business (paid or unpaid)
Seasonal worker (grouped with day laborer for analysis)*	
Apprentice / Intern / Trainee / Other*	

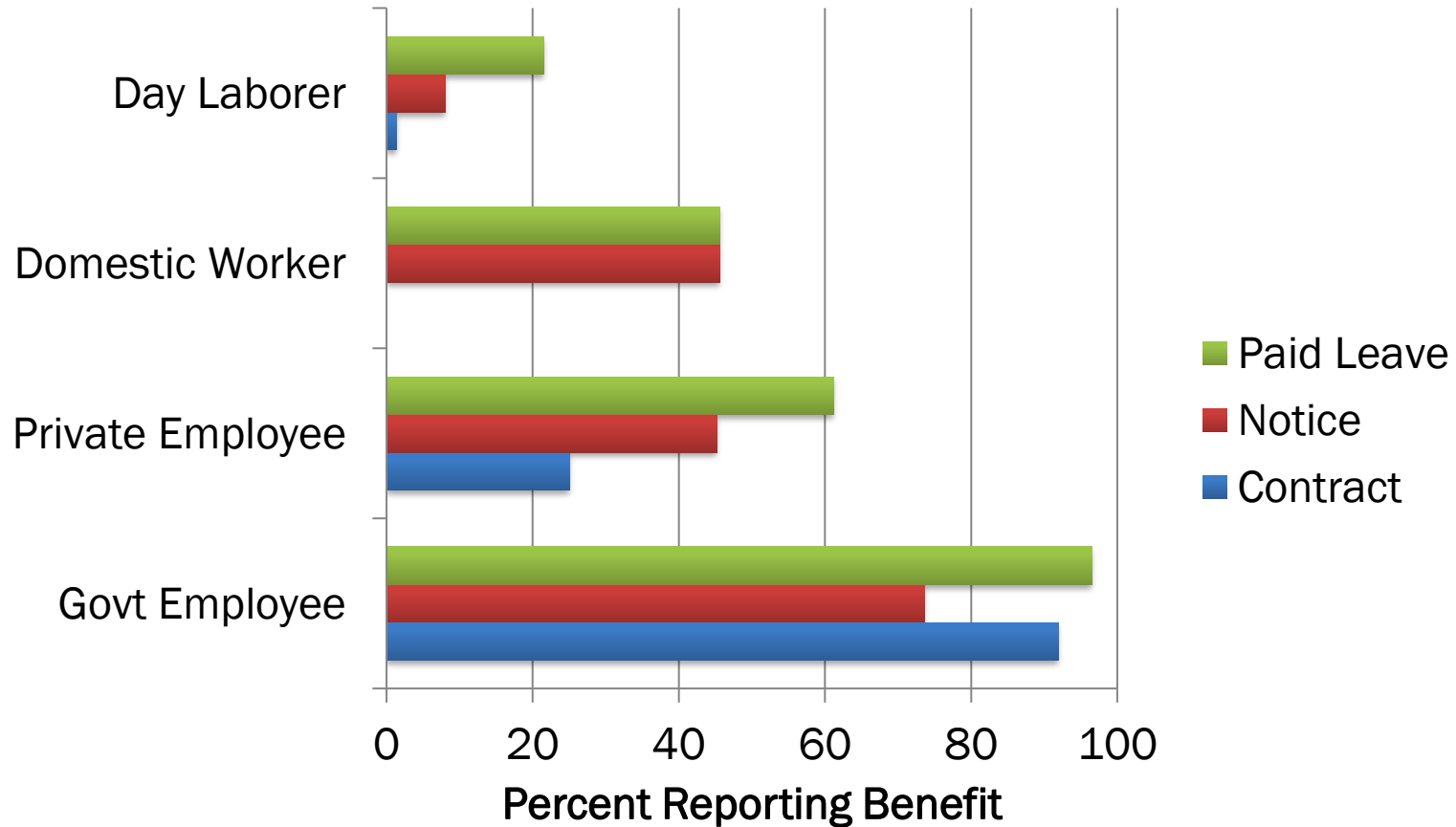
Our Final Survey Included 690 Women and 1,274 Men



Most Individuals are in Private-Sector Wage Jobs or Family Businesses



Specific Benefits for Wage Workers Vary Across Employment, Benefit Types

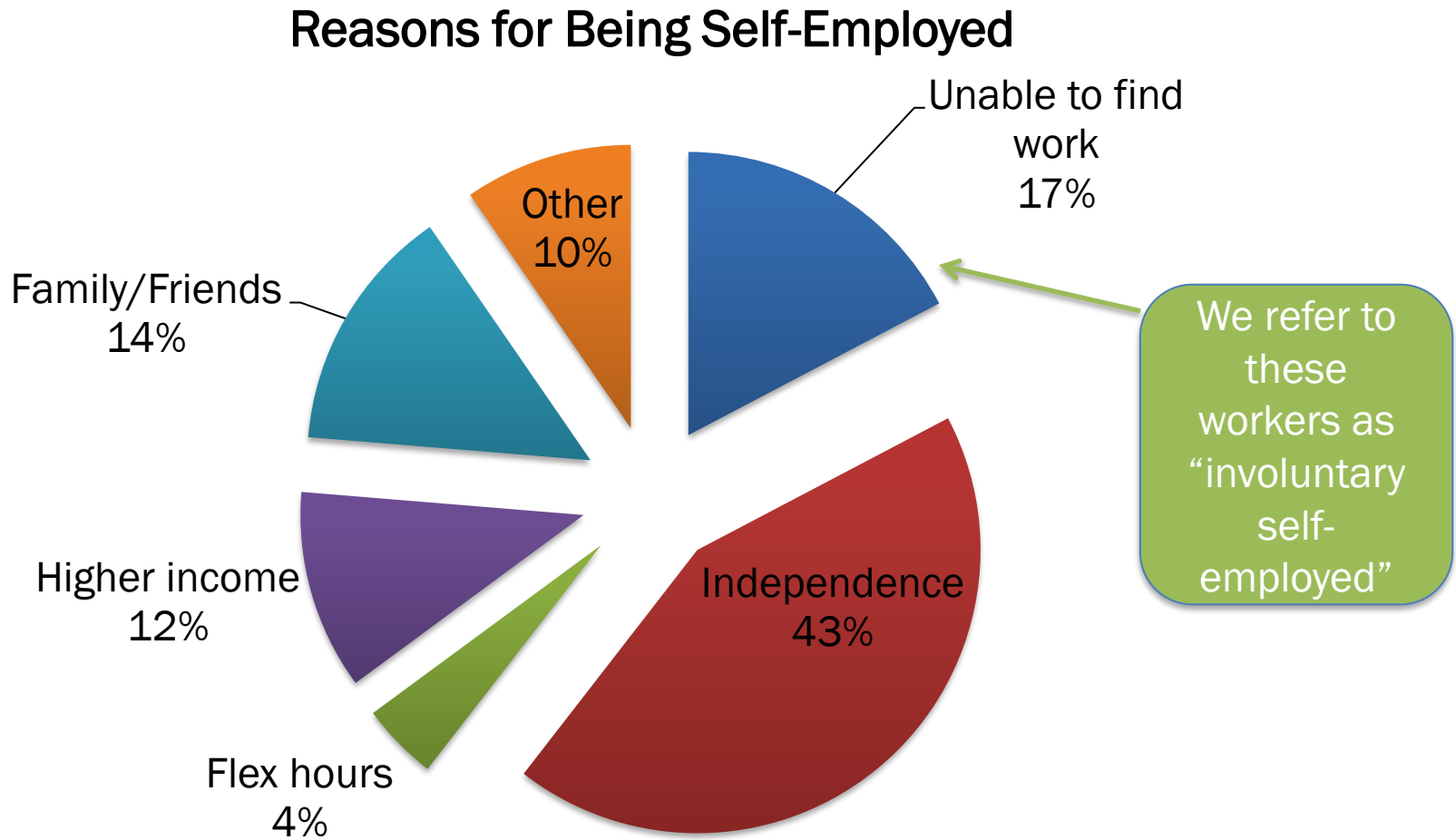


More Educated Workers Are Much More Likely to Have Jobs With Formal Benefits

Characteristics	Written contract		Provident Fund		Paid Leave		Termination notice	
Male	-0.00	(0.02)	-0.01	(0.02)	-0.04	(0.03)	-0.05	(0.03)**
Age	-0.0009	(0.0008)	-0.0004	(0.0006)	-0.003	(0.001)**	-0.003	(0.0009)***
Education (Base Pre-school or less)								
Some primary	0.02	(0.01)	0.02	(0.01)	0.06	(0.03)**	0.03	(0.03)
Some secondary	0.06	(0.02)***	0.05	(0.01)***	0.07	(0.03)**	0.04	(0.03)
Some high school	0.15	(0.03)***	0.08	(0.02)***	0.11	(0.04)***	0.16	(0.03)***
High school	0.22	(0.04)***	0.17	(0.03)***	0.16	(0.05)***	0.17	(0.04)***
Bachelors and more	0.36	(0.03)***	0.27	(0.03)***	0.33	(0.04)***	0.30	(0.04)***
Tenure in current job	0.004	(0.001)***	0.01	(0.001)***	0.0004	(0.002)	0.003	(0.001)**
Industry (Base Primary)								
Garments	0.01	(0.05)	0.03	(0.04)	0.25	(0.05)***	0.11	(0.05)**
Other Manufacturing	0.03	(0.05)	0.01	(0.04)	0.14	(0.05)**	0.12	(0.05)**
Trade/Transport	-0.05	(0.05)	-0.02	(0.04)	0.08	(0.05)	0.01	(0.05)
Education/Health	0.21	(0.06)***	0.23	(0.06)***	0.35	(0.07)***	0.19	(0.07)***
Public	0.64	(0.08)***	0.70	(0.08)***	0.65	(0.08)***	0.59	(0.10)***
Other Services	0.05	(0.05)	0.05	(0.04)	0.19	(0.05)***	0.14	(0.05)***
Zilla (Base Chittagong)								
Dhaka	0.02	(0.02)	-0.01	(0.02)	0.05	(0.02)**	0.0007	(0.02)
Gazipur	0.01	(0.03)	0.02	(0.03)	0.07	(0.04)	0.03	(0.04)
Narayanganj	-0.02	(0.04)	-0.01	(0.03)	-0.13	(0.05)***	0.08	(0.05)
N	1940		1923		1882		1822	

Results from linear regressions of receipt of each benefit in current job. Standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.01

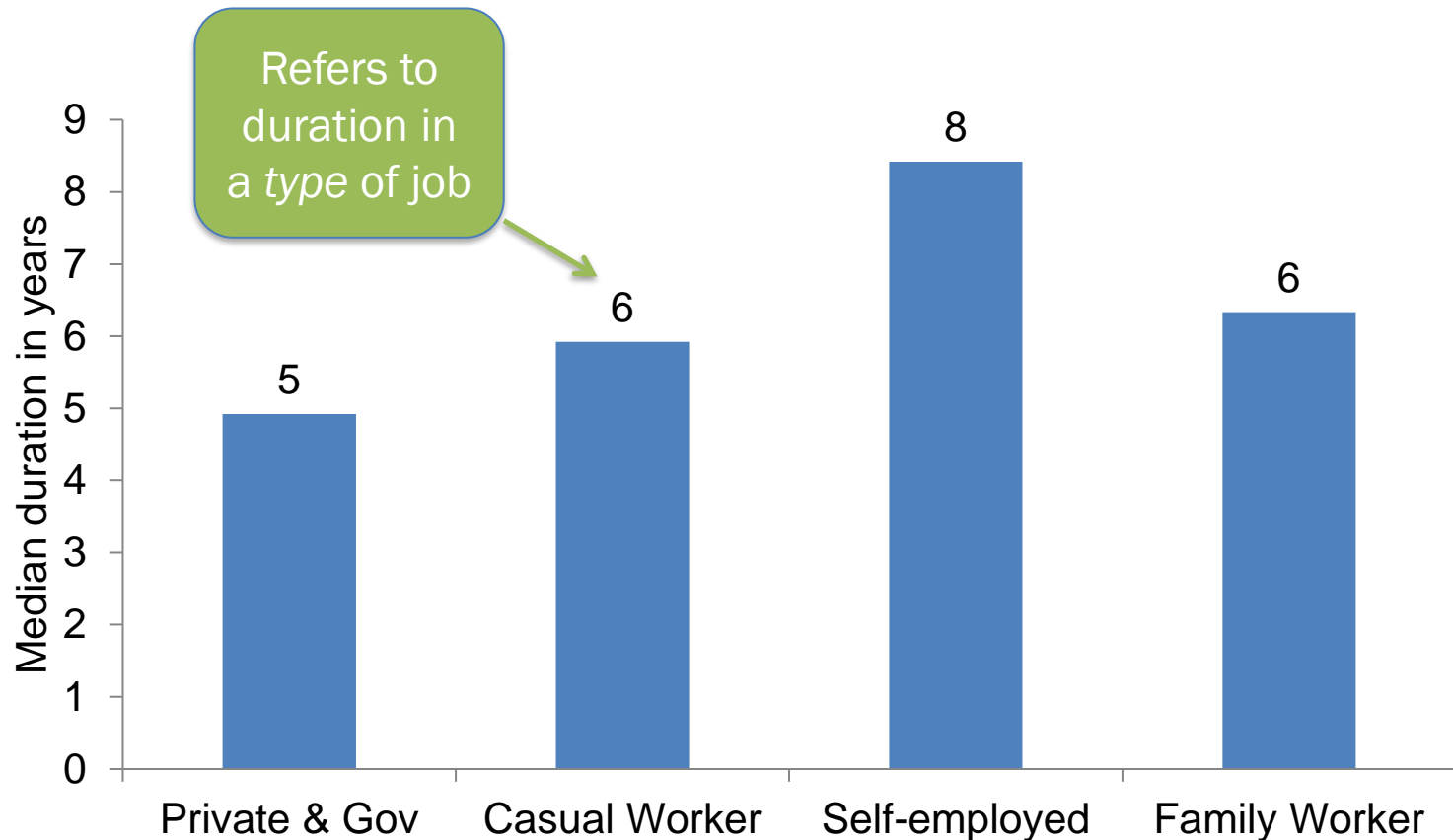
Self-Employed Include those Seeking Independence and Those Unable to Find a Job



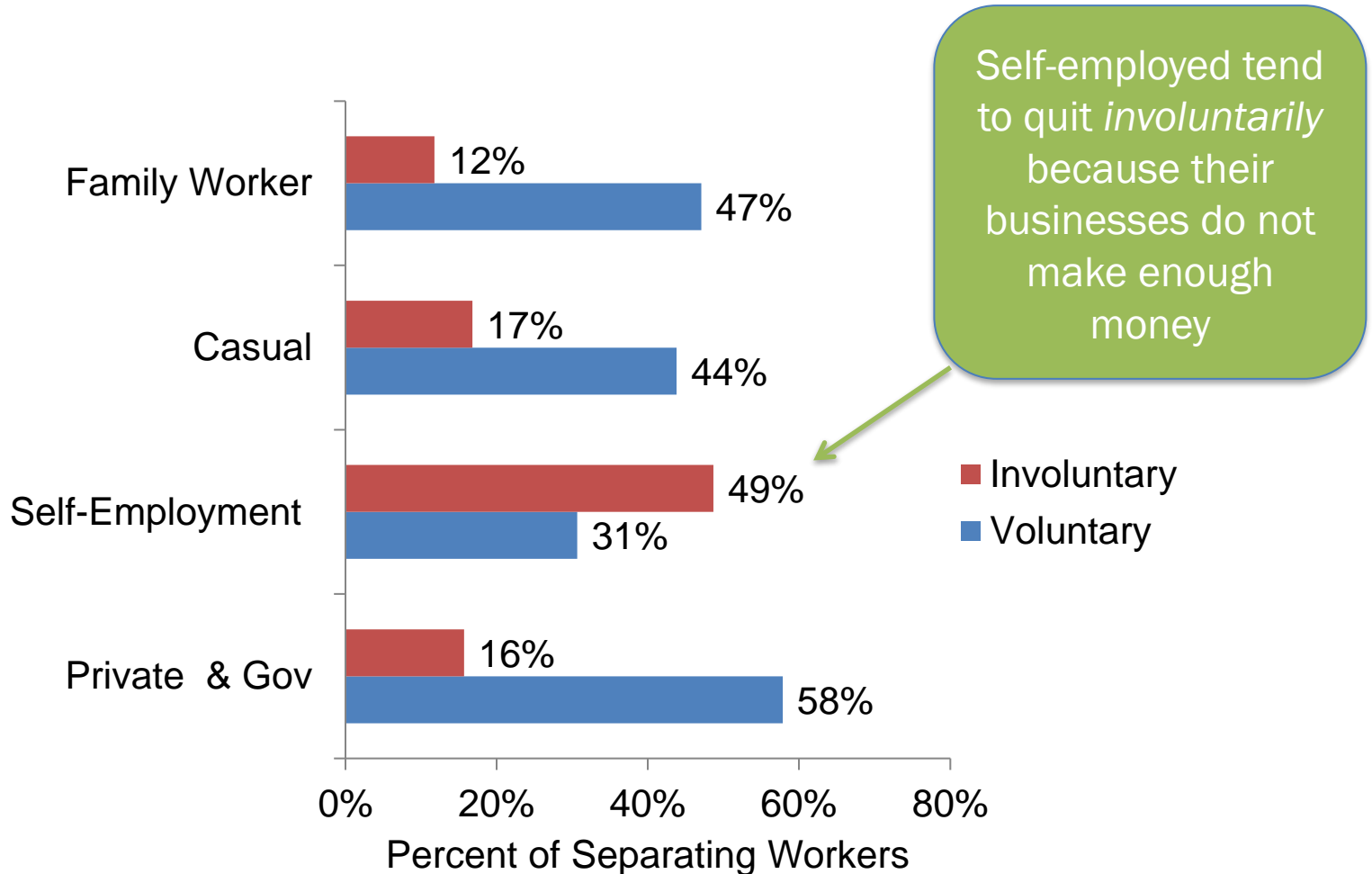
We Examined Worker Transitions Between Jobs

- How long do individual stay in their jobs/main activities?
- Why do they stop performing a job/main activity?
- To what type of job/main activity do they transit?
- Are they earning more or less in the new job/activity?

Individuals in Private Sector Wage Employment Have Higher Turnover than Self-Employed



Self-Employed Are Least Likely to Quit Voluntarily



Note: Shares do not add to 100% because of responses including “retired” and “other”.

Most Workers Who Move From One Job To Another Stay in the Same *Type* of Work

		Current employment					Total
		Private & Gov	Informal	Involuntary Self Employed	Voluntary Self-Employed	Family Worker	
Preveious employment	Private & Gov	62%	9%	3%	24%	2%	100%
	Casual worker	23%	42%	6%	25%	4%	100%
	Involuntary Self-Employed	33%	17%	21%	26%	2%	100%
	Voluntary Self-Employed	25%	10%	8%	56%	0%	100%
	Family Worker	30%	20%	5%	40%	5%	100%
	Total	48%	15%	6%	29%	2%	100%

But a Substantial Share of Workers Also Move from Private Wage Work to Self-Employment

		Current employment					Total
		Private & Gov	Informal	Involuntary Self Employed	Voluntary Self-Employed	Family Worker	
Preveious employment	Private & Gov	62%	9%	3%	24%	2%	100%
	Casual worker	23%	42%	6%	25%	4%	100%
	Involuntary Self-Employed	33%	17%	21%	26%	2%	100%
	Voluntary Self-Employed	25%	10%	8%	56%	0%	100%
	Family Worker	30%	20%	5%	40%	5%	100%
	Total	48%	15%	6%	29%	2%	100%

And from Self-Employment to Private Employment

		Current employment					
		Formal	Informal	Involuntary Self- employed	Voluntary Self- employed	Family worker	Total
Previous employment	Formal	62%	9%	3%	24%	2%	100%
	Informal	23%	42%	6%	25%	4%	100%
	Involuntary Self- employed	33%	17%	21%	26%	2%	100%
	Voluntary Self- employed	25%	10%	8%	56%	0%	100%
	Family worker	30%	20%	5%	40%	5%	100%
	Total	48%	15%	6%	29%	2%	100%

Some Workers Also Move Between Jobs With Different Types of Benefits

		Current Employment				
		Written Contract	Verbal Contract	No Contract	Self-Employment	Total
Previous Employment	Written Contract	50%	10%	4%	37%	100%
	Verbal Contract	10%	54%	6%	30%	100%
	No Contract	6%	15%	54%	25%	100%
	Self Employment	8%	22%	9%	61%	100%
Total		14%	31%	19%	36%	100%

The Probability of Moving from One Private Wage Job to Another Increases With Education

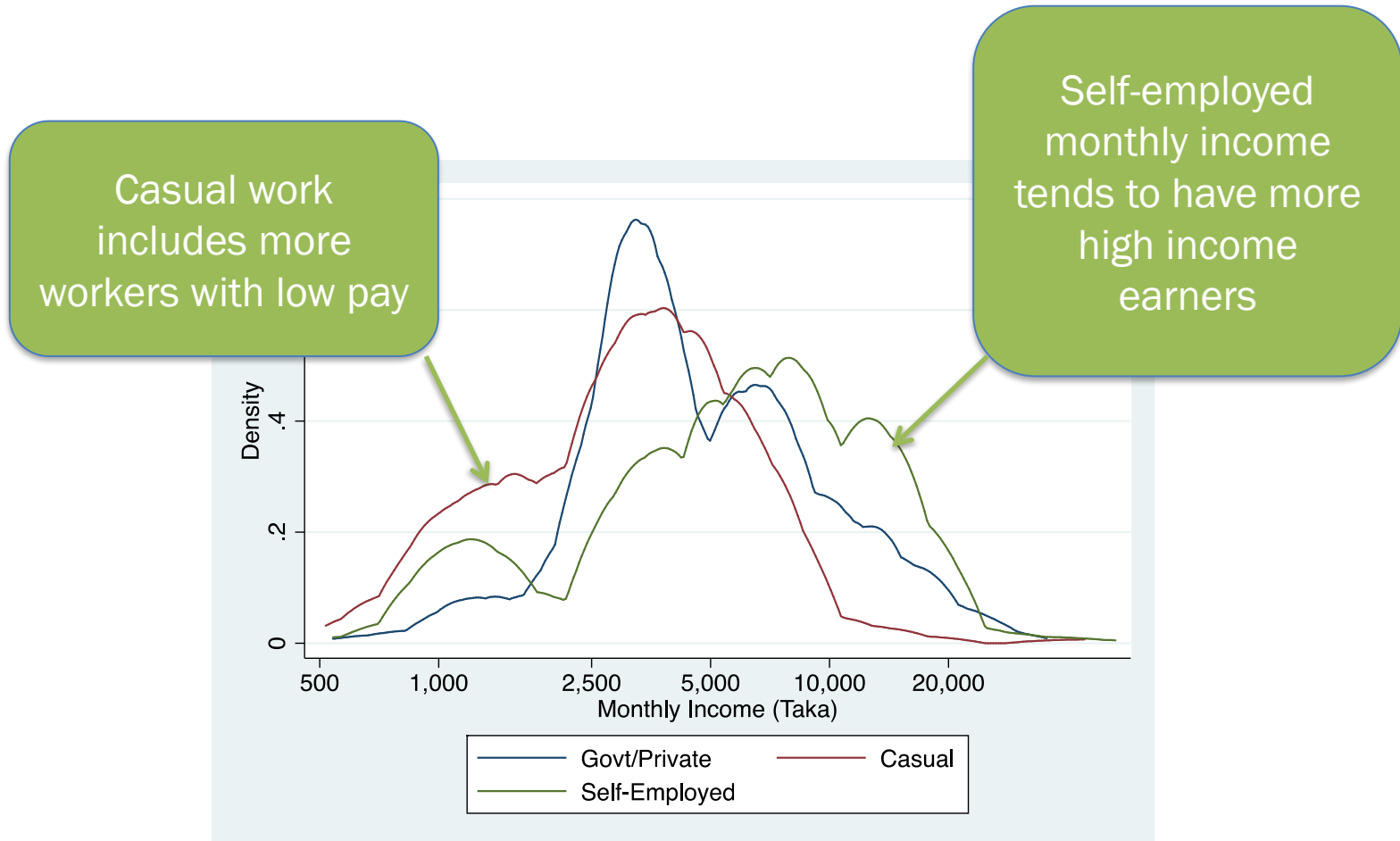
	Private & Gov	Casual Worker	Self-Emp	Family Worker
Age	0.00	0.00	0.00	0.00
Some primary	0.09	-0.11*	0.01	0.01
Some secondary	0.17**	-0.16***	-0.01	0.00
Some high school	0.26***	-0.20***	-0.05	-0.01
High school	0.25***	-0.23***	-0.02	0.00
Bachelors and more	0.34***	-0.22***	-0.10	-0.02
Male	-0.04	0.03	0.06	-0.05
Log(monthly wage)	-0.07***	0.01	0.06***	0.00
Duration of job	-0.08***	0.00	0.02***	0.00
Had Written Contract	-0.12*	0.05	0.07	0.01
Has Verbal Contract	-0.06	0.01	0.05	0.00
Had Termination Benefits	-0.02	0.01	0.02	-0.01
Had Retirement Benefits	0.17***	-0.08***	-0.08	-0.02***
Voluntary Left Job	-0.09*	-0.03	0.11**	0.01
Left Job for Other Reasons	-0.14**	0.12***	0.00	0.01
Note: Marginal effects from multinomial logit regressions; *** p<0.01, ** p<0.05, * p<0.1				

But Private Wage Workers with Higher Earnings, More Experience Are More Likely to Voluntarily Move to Self-Employment

	Private & Gov	Casual Worker	Self-Emp	Family Worker
Age	0.00	0.00	0.00	0.00
Some primary	0.09	-0.11*	0.01	0.01
Some secondary	0.17**	-0.16***	-0.01	0.00
Some high school	0.26***	-0.20***	-0.05	-0.01
High school	0.25***	-0.23***	-0.02	0.00
Bachelors and more	0.34***	-0.22***	-0.10	-0.02
Male	-0.04	0.03	0.06	-0.05
Log(monthly wage)	-0.07***	0.01	0.06***	0.00
Duration of job	-0.08***	0.00	0.02***	0.00
Had Written Contract	-0.12*	0.05	0.07	0.01
Has Verbal Contract	-0.06	0.01	0.05	0.00
Had Termination Benefits	-0.02	0.01	0.02	-0.01
Had Retirement Benefits	0.17***	-0.08***	-0.08	-0.02***
Voluntary Left Job	-0.09*	-0.03	0.11**	0.01
Left Job for Other Reasons	-0.14**	0.12***	0.00	0.01

Note: Marginal effects from multinomial logit regressions; *** p<0.01, ** p<0.05, * p<0.1

There is a Large Overlap Between Wages by Type of Employment

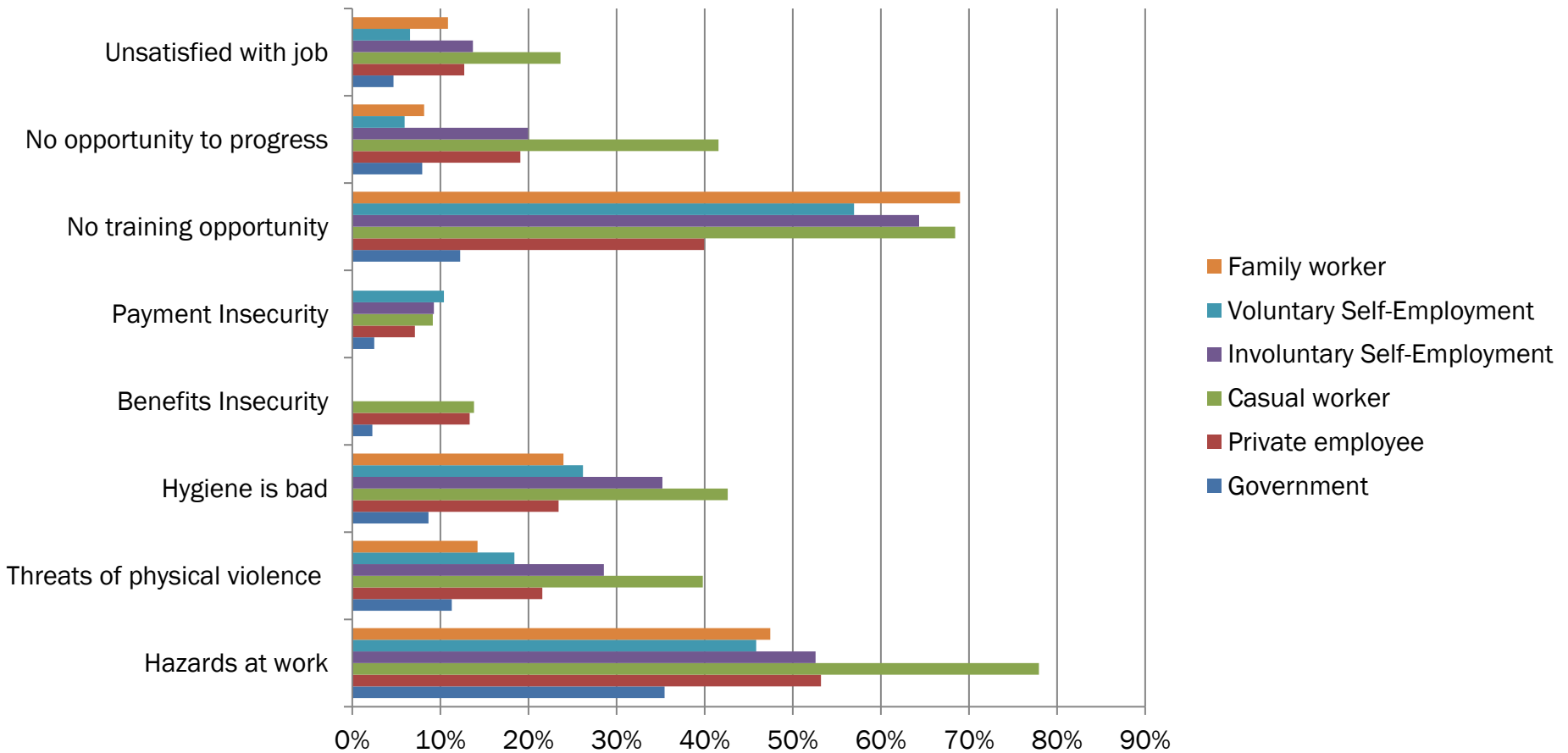


Workers Leaving Private Wage Employment Are More Likely to Earn Higher Wages, Whereas Those Leaving Self-Employment Are More Likely to Earn Lower Wages

Median Change in Monthly Earnings Between Jobs

		To:			
		Private & Gov	Casual	Self-Employment	Family Worker
From:	Private & Gov	14%***	19%	14%	8%
	Casual	-2%	4%	21%**	-
	Self-Employment	-15%*	-18%	-17%**	-
	Family Worker	39%	15%	24%	-24%

Poor Working Conditions Are Common, Especially for Casual Workers



Note: "Casual worker" also includes day laborers, domestic workers, and apprentices.

If Informal Work is Here to Stay, Could Policymakers Improve Working Conditions?

- Much of the current literature and policy focuses on how to help firms and workers formalize
- But the vast majority of workers are likely to remain informal for the foreseeable future
- Government agencies may not have the resources to enforce *all* worker benefits that they might like to, especially for informal workers
- And trying to require such benefits may simply push informal firms further into the shadows
- What benefits would workers value the most?