

**MARKETING SYSTEM IN THE INFORMAL
MANUFACTURING SECTOR:
A CASE STUDY OF BANGLADESH**

SYED FERHAT ANWAR

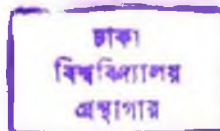
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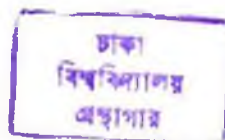
A thesis submitted to the University of Dhaka, Bangladesh for the degree of
Doctor of Philosophy

Institute of Business Administration
University of Dhaka
November 1998

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Under the supervision of

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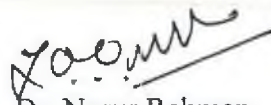


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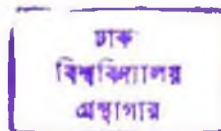
This is to certify that the thesis "Marketing System In The Informal Manufacturing Sector : A Case Study Of Bangladesh" submitted for the award of the Degree of Philosophy to the University of Dhaka is a record of bonafide research carried out by Mr. Syed Ferhat Anwar under my supervision. No part of this thesis has been submitted for any degree, diploma, or title recognition of any university before.

He is permitted to submit the thesis.

November 15, 1998


Dr. Nurur Rahman
Supervisor

382505



Declaration

The material embodied in this thesis is original and has not been submitted in part or in full for any other degree, diploma, or title recognition of any university.

Date : November 15, 1998


Syed Ferhat Anwar

Dedicated to my Grand Father Syed Abdur Rahim

Marketing System in the Informal Manufacturing Sector: A Case Study of Bangladesh

ABSTRACT

This research is an endeavor to understand and identify the existing marketing practices and system of the informal manufacturing sector in the context of Bangladesh. The objectives of the study are directed to gain insights into the management practices of the informal manufacturing sector and to study the relationships, which exist between the formal and informal manufacturing sector.

The key research issues examined are: developing a general definition of the informal sector, developing the marketing system and general marketing profile of the informal manufacturing sector, identifying the form of linkage between the formal and informal sector, understanding the management practices of the informal manufacturing sector, understanding the factors contributing to the mode of operation in general, and identifying various macro and micro environmental effects.

At the empirical level information have been collected from three sub-sectors within the informal as well as the formal manufacturing sector. The sub-sectors include plastic, shoe, and leather goods. The sample size for the informal sector is 653 units while 28 units from formal sector comprise the sample.

The study is directed towards seven conceptual models developed through literature survey and ten hypotheses. The models have been tested at the empirical level, which resulted in the development of operating models relevant to the informal marketing sector. The models developed include:

1. Legal environment of the informal sector.
2. Conceptual framework of the management functions in informal manufacturing sector.
3. First degree backward and forward linkage of the informal manufacturing sector.
4. The linkage between the formal and informal sector.
5. Marketing functions of the informal manufacturing sector.
6. The simple marketing system of the informal manufacturing sector.
7. The basic marketing system of informal manufacturing sector.

In addition to the above models, the study is extended towards the following five findings.

1. The conceptual definition developed based on the literature survey is not true for the informal manufacturing sector of Bangladesh.
2. The informal manufacturing sector is transient in nature.
3. The informal manufacturing sector is one of the major contributors to employment.
4. Scope for introducing modern marketing techniques and tools exists within the framework of informality.
5. The formal marketing units are price setters and price dictators.

The study indicates that the informal marketing practices and system is different from that of the formal sector. Furthermore, it suggests that the formal marketing practices can strengthen the informal sector marketing. The finding that the informal manufacturing sector plays an important role is consistent with the existing body of the literature.

ACKNOWLEDGMENT

Words are, though inadequate medium to express succinctly one's feelings of the mind, yet one has to invariably depend on them. Many professional friends have facilitated this research output. I express my sincere thanks to each of them.

First of all, I would like to acknowledge my gratitude and indebtedness to my research guide and supervisor, **Professor Nurur Rahman, Ph. D.**, Institute of Business Administration, University of Dhaka, for whom these few words of acknowledgment would be too little. His unanswering encouragement, critical and incisive evaluation and patience institute in him as my academic mentor, a distinguished personality in the field of business education.

My earnest thanks are due to Dr. E. Stefan Grant, Associate Professor of Marketing, Faculty of Business Administration, University of New Brunswick, Canada for his valuable insights and suggestions in the successful initiation of my research endeavors.

I thank Dr. Shamshul Haque, Treasurer, University of Dhaka, and Mr. Mushtaque Ahmed, Assistant professor, Institute of Business Administration, University of Dhaka for providing me encouragement to enrich my research and analytical capability through intellectual discussions and literature backup.

I would like to put on record my gratefulness to CIDA for granting me the scholarship to undertake the literature survey and course work in Canada, the momentum which I gained during my nine months study at UNB helped me all the way down to the completion of Ph. D. work. I am also indebted to OJ Trust for providing me the financial aid for the field research, without which the research would have been a mere sketchy work.

I would like to thank all the informal and formal sector entrepreneurs who have been kind, patient, and cooperative in providing the primary data for the study. The information volunteered by them added realism to my study.

I express my gratitude to my parents, **Mrs. Hazara Khanam**, and **Dr. Syed Bazlur Rahim**, for their support and lifetime lessons. My wife **Syeda Nazia Jabeen**, and my beloved daughter **Syeda Silma Tamanina** were always with me psychologically and physically when I was engaged in a long-term doctoral research. I will carry their fond memory throughout my professional life.

And, finally I acknowledge the support and cooperation, which I received from different individuals and institutions.

Date: November 15, 1998

Syed Ferhat Anwar

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Why Informal Economy

"The Informal Economy is an exciting corner in the grim domain of the dismal science. It is the realm of the unofficial, of the irregular, of the hidden, of the illegal; the submerged portion of what remains a poorly understood process called the economy. For economists have a lot to say about economics - i. e. their vision of the world - but much less about the socio-material reality they are supposed to study - i. e. the economy".

Gilles Paquet

CHAPTER I : INTRODUCTION

Overview

A comprehensive understanding of the informal sector of an economy is virtually lacking. The literature in informal economy is fragmented and perceives the informal sector as complex much deferent from formal sector. Every compilation on informal economy is only a portion of the jigsaw puzzle. The informal sector is one of the major economic growth centers throughout the world and contributes to both GDP and employment opportunity. The influx of the rural population has resulted in an uncontrolled growth of this sector in and around the urban centers where the informal sector trades their major market. However, the business practices prevailing in this sector is relatively less known compared to the formal sector. This is particularly in the case of marketing practices; not even a single study focussing marketing system in the informal sector has so far been undertaken.

This chapter is divided into seven sections including the overview. The chapter outlines the issues addressed in this research and details out the methods used in doing the research. It also outlines the scope and limitations of the study.

Problem in Perspective

Literature review shows that formal body of knowledge about informal economy, particularly, about the marketing practices of this sector is very limited. Past studies undertaken were mostly centered around economic contribution at the macro level or in terms of production. Studies conducted in the area of marketing operations are limited to distribution systems and retailing practices. Some studies have identified problems associated with marketing of the small-scale industries (Amin 1987, Anwar 1992, Reddy and Reddy 1984, Narasimha et al 1984, Deolankar 1983). These studies identified a number of major problems on listed below:

1. limited scope of their activities (length & width of operation),
2. excessive dependence on intermediaries in marketing their products,
3. lack of formal marketing knowledge,
4. limited scope of marketing activities,
5. limited financial resources, and
6. Less accessibility to markets.

Evidently none of the studies have focused on the marketing system. The fragmented nature of studies resulted in lack of structured knowledge of the marketing system prevailing in the informal sector. It is therefore essential to undertake a comprehensive study of this sector with an objective to unveil the marketing practices and system prevailing in this sector, specifically in the context of Bangladesh.

Research Issues

This research has attempted to answer the following questions and issues:

1. What is the marketing orientation of the informal manufacturing sector?

A clear cut knowledge regarding the marketing orientation is not available in the extant literature. Although the marketing activities of the informal sector reflects some consumer orientation a clear behavioral approach is lacking. In addition the basic purpose of marketing in obtaining demand and servicing demand is lacking. 'Spot' type transactions predominate, traditional buying-selling' is focused, and a long-term orientation is not emphasized.

2. What are existing marketing activities and practices pursued by the informal sector?

No detailed study regarding the marketing practices of the informal sector has so far been undertaken. But, as stated earlier, information on the marketing problems faced by this sector is available to a certain extent. The marketing activities in the context of this research extend traditional 4 Ps: promotional mix, product decision, pricing, inventory management & storage, order processing & handling, and the transpermeating activities such as general administration, financing, and marketing research. The support activities either experienced by the manufacturers or by the service providers are also covered by the study.

3. What are the major differences between the marketing activities and practices of formal and informal sectors?

Past research indicates that the relationship between the two sectors exists at different functional levels. An attempt has been made to conceptualize the relationship between formal and the informal sector based on secondary research; however, separate empirical study is required to understand the differences that exist in the marketing activities of the formal and the informal sector.

4. Why dissimilarities exist between formal and informal sector in their marketing activities and practices?

The primary cause of dissimilarity is attributed to the legal status of the two sectors. However, no formal study has been undertaken to see the differences in marketing practices in Bangladesh.

5. How do we evaluate the existing marketing activities and practices of informal sector in terms of efficiency and effectiveness?

The informal sector has been operating parallel to the formal sector. Thus, one needs to measure its efficiency and effectiveness to assess the marketing potential of informal sector.

6. What are the key problem areas that affect marketing activities of informal units?

Several studies have been undertaken to identify the problems associated with the informal sector. However, none of these studies addressed the marketing issues.

7. What are the different support services provided and steps undertaken at the macro level (Government, NGO and other institutions) to improve the marketing system of the informal sector?

The fact that this sector is growing and contributes to the economy essentially calls for a look at the financial support system for this sector. Trading has been identified as one of the major hurdles faced by this sector. The trading issue should be looked at both in terms of formal as well as informal relationship that exist between the sector and the funding agency.

It is further observed that in Bangladesh, supports include - financial support, technological support, and marketing support. However, since the extent of support varies over time, it is essential to identify and evaluate the support system prevailing at a point in time.

8. What are the different steps undertaken at the micro level (unit level) to improve the marketing system of informal sector?

As the marketing system of the informal sector is expected to be different form that of formal sector, the problems are also expected to be unique. Therefore it is important to identify the strategies followed by this sector to address such problems and thereby improve upon the present practices of the system.

9. Is there a need for adequacy and relevance of the efforts undertaken both at micro and macro level?

The existing strategies must be analyzed to see if these are adequate for and relevant to the objectives to be achieved. This needs to be viewed both at the macro and at the micro level needs in the framework of extant literature.

10. What is the scope for further improvement of the existing marketing system?

Keeping in view that scope for improvement always exists, one needs to find out the possibilities of such scope specially in case of a less organized system.

Research Objectives

The broad objectives of this research were as follows:

1. To see how the informal units are initiated or started.
2. To identify the elements of definitional framework of informal manufacturing sector.
3. To understand the management characteristics of the informal enterprises and understand the operational technicalities.
4. To assess the marketing planning activities undertaken by the informal manufacturing sector.
5. To assess the differences in marketing practices of the Formal and Informal Sector in Bangladesh and to see any logical link that may exist between the two system.
6. To identify the marketing system prevailing in the informal sector.
7. To evaluate the existing marketing system and identify the major problems, if any with the present system.
8. To develop a framework for suggesting a General Marketing System for the inform sector.
9. To assess the future growth potential of the informal sector.
10. To identify future research issues based on the issues raised in this study.

Research Approaches

The study addressed the following research issues in the manner outlined below:

Phase-I: Listing of the informal units in the study population has been done in order to determine sample size, sampling technique and field design. But, due to the complexity associated with the informal sector it was not possible to obtain a formal listing. Therefore, the method outlined by Anwar et al (1996), was partially followed. This methods takes into account the informal manufacturing sector (Appendix I).

Phase-II: A conceptual framework covering the following aspects has been developed:

1. A formal definition of the informal sector. *The development of a general definition of the informal sector has been primarily undertaken and presented later in this research. The definition so developed served as the base for determining the scope of the work. The definition was further tested in the context of Bangladesh. For purpose of this study, the informal sector has been defined in a typically limited sense to include three categories of small industrial units:*
 - a. The small industrial units listed with the government agencies like Bangladesh Small and Cottage Industries Corporation (BSCIC).

- b. The small units listed with NGOs, both local and international.
 - c. The unlisted, free lancing smaller units. These informal units are less organized, and virtually no official data or records are available. They do not come directly under the regulatory agencies such as municipal corporation for licensing purposes or National Board of Revenue (NBR) for assessment of income tax or VAT.
2. Listing of marketing activities. *The activities have been identified through primary survey for purpose of listing.*
 3. Listing of standard marketing practices. *This has also been done through primary survey.*
 4. Definition of a marketing system. *The definition of the marketing system has been outlined following compilation of information from items a, b, and c of 1. An attempt has also been made to develop a model of the marketing system of the informal sector.*
 5. Standard profile of marketing practices. *A standard profile of the marketing practices has been developed as an outcome of the system. In developing the standard profile the information collected through primary survey have been used.*
 6. Definition of market performance measures. *Data derived from both primary and secondary roles were used in defining performance.*
 7. Meaning and measurement of efficiency and effectiveness *was developed from the findings of the primary survey of the enterprises.*

8. Form of linkages between informal units, government agencies and NGOs has been identified by using the information generated from the *government, the NGO sources and from the primary sources*.
9. Type of linkages between informal units and formal sector investors, financiers, marketing and manufacturing units. Data were collected both from primary & secondary sources.

Phase-III: A framework has been developed to compare the marketing activities/practices and system of informal sector with those of the formal sector.

Empirical study (cross sectional type) was conducted covering the formal and informal units located within the geographical limits of Dhaka Metropolitan Area, Narayanganj Municipality, Tongi Municipality, Savar Bazaar, Demra Thana, Gazipur Municipality and Zingira. Information were collected directly from the informal units. The sample size was based on availability (during first stage) of the number of units belonging to the three categories of the informal units, i. e. "Leather Goods, Leather Shoes, and Plastic Products".

A pre-designed and pre tested questionnaire was used in doing field enumeration. The interview was conducted under the direct supervision of the Ph. D. student. The Figure 1. 1 illustrates the methodology followed in doing the field enumeration.

Stage	Illustration
One	Investigation of the various outlets selling the products under investigation to identify geographical area concentrating housing the manufacturers and starting points.
Two	Visit the locations to arrive at an understanding of the concentration type and size in the aforesaid sampling area.
Three	Interview of the selected entrepreneurs to identify the approximate number of units in the respective sampling area.
Four	Undertaking pre-test to assess the knowledge base of the target respondents for developing the questionnaire.
Five	Pre-testing of the questionnaire.
Six	Actual field survey using three separate teams for the three product types.

Figure 1. 1 : Illustration of Methodology Followed while Conducting the Field Work

Scope of the Research

The scope of this research work was primarily limited to the working definition as set for the purpose of this research and limited to some of the major industry types mentioned in the Table 1.1. The reasons for delineation of the scope are:

1. The major industries are accounted for and are expected to be representative of the population.
2. It is very difficult to identify the exact distribution of the industry types due to the complexities associated with the informal sector.

3. This research is essentially an exploratory in nature, and, as such, a good representation of the population will suffice on generating tentative conclusions.

Table 1. 1: Number of Factories in Census of Manufacturing Industries by Major Industrial Groups

BSIC Code	Title of the Category	1984-85	1988-89
311/2	Food Manufacturing	610	6001
314	Tobacco Manufacturing	23	535
315	Animal by Products	-	3
324	Leather & Leather Products	133	402
325	Leather Foot Wear	5	42
326	Ginning, Process of Fibers	22	57
331	Wood & Cork Products	33	1293
332	Wooden Furniture	18	243
341	Paper & paper Products	26	45
356	Rubber Products	33	101
357	Plastic Products	44	189
361	Pottery & China Ware	6	145
362	Glass & Glass Products	36	15
381/2	Fabricated Metal products	317	1067
383	Non Electrical Machinery	140	125
384	Electrical machinery	736	403
391	Decorative handicrafts	-	5

Source: Ministry of Planning, Report on Bangladesh Census of Manufacturing Industries, 1986-87, Published, 1990.

The study focused only on consumer goods manufactured within the defined population. The selection of geographical area in and around Dhaka has ensured convenience in enumeration. Consumer products under the following categories were covered:

1. leather products,
2. leather foot wear, and
3. plastic products.

The selection was done in line with priority set in the fourth five-year investment plan. The Three selected sub-sectors were focused as having growth potential as it was revealed by the preliminary study.

Sampling Plan

The sampling technique used was primarily systematic random. The technique derived by Anwar et. al. (1996) was used to determine the size of the population and thus it helped in developing a list of the units. The actual sample size was determined taking into consideration the uncertainty factor prevailing in the sector.

For the formal sector a list was obtained from Bangladesh Small and Cottage Industries corporation (BCIC) by following purposive sampling technique. While listing the units, the following factors were taken into consideration: location, the present status of the units, and the ease of gathering information from the units. The formal sector was used for purpose of comparisons specially in respect of the marketing activities. Thus, size of the sample kept limited. The sample profile is given in Table 1. 2.

Table 1. 2 : Sample Size of the Study

Sample Type	Population Informal	Sample Informal	Population Formal	Sample Formal	Total Sample
Plastic Goods	1000	300	50	10	310
Leather Shoe	1600	300	100	10	310
Leather Goods	700	300	20	10	310
Total	3300	900	170	30	930

Contribution of the Study/Research

The research addresses both the trade as well as the academic issues. The models developed will not only enrich the literature but it may also act as a guideline for future entrepreneurs.

Contribution to Trade

Over the past two decades literature on development economics has been addressing the role and importance of small scale industries on the development of developing countries. In Bangladesh more than 80 percent of the population are directly or indirectly involved with small scale business units either as manufactures, or distributor, or consumer. This phenomenon is rather expected because of both low capital base of the investors and purchasing power of the consumers. Moreover, information on the marketing practices of Informal Sector is totally

lacking. This study made an attempt to identify some of the major marketing issues embedded in the informal sector, which might greatly benefit not only the national policy decision-makers but it would also benefit the present and future trade in the country.

Contribution to Literature

The study attempted to develop a set of models and a number of hypotheses relating to the existing marketing system of the informal sector. As it has been stated earlier that information on the marketing system of the informal sector is lacking and this study is the first of its kind attempting to develop a marketing system model for the informal sector. Thus, it is expected that the study will substantially contribute to the marketing profession and literature.

Limitations of the Research

As stated earlier, the study is primarily exploratory in nature. The study is thus a clinical one, and has generated a number of hypotheses for future research. The analysis is centered around the study findings and is thus generalize able in a limited way. This is rather an inductive research.

Structure of the Dissertation

The dissertations have been structured around eight chapters in a logical sequence.

1. Formal Understanding of Marketing: this is the second chapter of the research. In this chapter, discussion has been on the historical growth of marketing as a discipline and focuses on the formal marketing system and function.
2. Review of Literature on Informal Sector: the third chapter discusses at length the breadth and width of informal sector research, with emphasis on business and economics.
3. Formal - Informal Relationship: the fourth chapter concentrates on the formal - informal relationship based on the literature survey.
4. Informal Sector in Bangladesh: This chapter concentrates on the prevailing scenario of the informal sector in Bangladesh. The chapter highlights the information available in the extant literature.
5. Conceptualizing the Informal Sector marketing: This chapter concentrates on a number of models developed by the researcher in order to generate some relevant hypotheses. Four models have been developed using the secondary data and information. The models are:
 - a. A model outlining the definition of informal sector.
 - b. A model outlining the probable environment and management functions of the informal sector.
 - c. A model of relationship between formal and informal sector.
 - d. A model outlining the probable marketing approach prevailing in the informal sector.

6. Findings and Analysis of the Information: This chapter analyses in detail the primary data collected from both formal and informal manufacturing sector. It further addresses the objectives outlined in the research and tests the hypotheses generated through secondary research.
7. Discussion and Conclusion: The final chapter stresses on the implications of the findings and discusses the future of informal sector from the global and Bangladesh perspectives. It also identifies the strengths and weaknesses of the research. It concludes with a set of agenda for future research.

CHAPTER II: FORMAL UNDERSTANDING OF MARKETING

Marketing as a Discipline

Many marketing theorists have observed that the history of marketing (not unlike the history of the social sciences) can best be understood as a history of marketing fads. This is primarily because of dynamic nature of marketing discipline, and the fact that world is changing so fast that the marketers have to adjust themselves to keep pace with the environment. Marketing was not recognized as a separate field of study until the twentieth century. The need for marketing did arise because of the physical distance, which frequently separated the producer and the ultimate consumer with the advent of mass production and mass distribution.

During the initial days of organized economic activities, economists performed the marketing functions in their own way. Probably, economics and marketing share a basic concern as to what goes on in a market place. However, in reality it was evident that economics began with the study of a national economy, as indicated by Adam Smith in his book "The Wealth of Nations", although it was later extended to problem of individual firms. Marketing by contrast, began with the problem of individual firms or producing groups and went much further than economists in its study of detailed processes by which goods were moved from producers to the consumers.

Formal marketing education began in the United States in 1902 when the University of Michigan offered a course entitled "The Distributive and Regulative Industries of the United States," taught by Professor E. D. Jones. The beginning of marketing's formal literature is often ascribed to Arch W. Shaw and his 1912 article "Some Problems in Market Distribution. " During the early 1920s the principles of scientific management formerly applied to sales management problem were broadened to apply to wider range of marketing problem. These development coincided with the broadening of the role of the sales manager into that of marketing manager (Londe and Morrison 1967). Probably the most direct application of Taylor's principles to marketing management appeared in 1927 in Percival White's *Scientific Marketing Management*. The basic idea formulated in this article was that the beginning and end of all marketing problem is the consumer. The formal institutionalization of marketing took place in 1937 with the formation of the American Marketing Association.

Prior to 1985, the American Marketing Association defined marketing as "the performance of business activities that directs the flow of goods and services from producer to the consumer or user. " (Committee on Terms 1960). This was however considered as too restrictive and debate regarding the definition resulted in formulation of a definition by the marketing staff of Ohio State University in 1965, which read, "marketing is the process in a society by which the demand structure for economic goods and services is anticipated or enlarged and satisfied through the conception, promotion, exchange, and physical distribution of goods and services. " This definition thus viewed marketing as a social process. Later Kotler and Levy (1969) suggested that the concept of marketing be broadened to include non business organizations. The authors further argued that marketing involves product development, pricing,

distribution, and communication; and in the more progressive firms, continuous attention to the changing needs of customers and development of new products, with product modifications and services to meet these needs. But whether marketing is viewed in the old sense of "pushing" products or in the new sense of "customer satisfaction engineering," it is almost always viewed and discussed as a business activity. Luck (1969), disagreeing with Kotler and Levy insisted that marketing be limited to those business processes and activities, which ultimately would result in market transactions. This was however defended by the two (Kotler and Levy 1969) based on the suggestion that "the crux of marketing lies in general idea of exchange rather than the narrow thesis of market transactions. "

The movement to expand the concept of marketing probably became irreversible when the *Journal of Marketing* devoted an entire issue to marketing's changing social and environmental role. Kotler and Zaltman (1971), coined the term social marketing, which they defined as "the design, implementation, and control of programs calculated to influence the acceptability of social ideas and involving considerations of product planning, pricing, communication, distribution, and marketing research. " It was obvious that marketing had broadened and was now addressing problems throughout the spectrum of the economy.

The Marketing Concept

The marketing concept is the result of an attempt to operationalize a basic philosophy of marketing held by economists and marketing theorists. This philosophy of customer satisfaction was not clearly articulated in operational business terms until the 1950's. However, this situation changed as the "marketing revolution" unfolded. The customers started to gain importance and thus the need to look at the customers for guidance in the organization and direction of business was recognized (Keith 1960).

McKitterick (1958), a leading executive, presented a paper before American Marketing Association which became one of the most widely reproduced statements on the marketing concept. He clearly tied the emerging marketing concept to the problems of corporate growth and the need to develop a meaningful internalized philosophy of business to guide the planning and profit control functions. Based on the earlier studies Bell and Emory (1971), identified three basic elements of marketing concept:

1. *Customer Orientation.* Knowledge of the customer, which requires a thorough understanding of his needs, wants, and behavior should be the focal point of all marketing action. It implies that development of products and services to meet these needs. It does not exclude the possibility that needs may be "stimulated" by business or that aggressive selling may be needed to persuade consumers to buy goods and services which have been created for them.

2. *Integrated Effort.* Ultimately, the entire firm must be in tune with the market by placing emphasis on the integration of the marketing functions with research, product management, sales, and advertising to enhance the firm's total effectiveness.
3. *Profit Direction.* The marketing concept is intended to make money for the organization by focusing attention on profit rather than upon sales volume. However, the order of planning process should be changed. Instead of setting profit goals and then seeking means and methods of achieving them, the corporations should approach planning in the following manner:
 - a. What specific satisfactions should be provided to the consumer?
 - b. What specific consumer satisfactions can the marketer provide?
 - c. What is the most efficient way to provide these satisfaction?
 - d. Is the rate of return expected from the venture sufficient to justify investment?
 - e. If the anticipated return is below the desired standard, what can still be done to supply the consumer need?

In 1985, two decades after the Ohio State University position paper, the debate within the American Marketing Association culminated in a new "official" definition: "Marketing is a process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and or organizational objectives. " It is therefore seen that the marketing philosophy is primarily responsible to ascertain that every aspect of the business is focused in determining superior value to customers in the competitive market place (Webster 1992). Thus, marketing has shifted its focus from transaction approach to a more relationship approach (Morgan and Hunt 1994).

Philosophy of Marketing

Since the very birth of marketing, philosophers and researchers have asked questions of the type; "Does philosophy of science and its literature have anything to contribute to the progress of marketing science?" and "What philosophy dominates marketing?"

With regard to the first question there is no underlying doubt that philosophy of science literature can play a significant and positive role in marketing science because of the simple fact that all research activity essentially implies some underlying philosophy. This can be further explained by stating that, when a scholar engages in a research project there are always underlying assumptions about the goal or goals of the project, the nature of reality relative to the project, the appropriateness of the underlying methodology, the role of theory, and so forth. This explicit or implicit awareness and acknowledgment of research, is likely to lead to better, more effective, and more accurate research.

What philosophy dominates marketing? To address this question requires a recognition of the various research activities and the various schools of thought directed towards marketing. Sheth, Gardner, and Garrett (1988) have identified twelve such "schools of thought": commodity, functional, functionalist, regional, institutional, managerial, buyer behavior, activist, organizational dynamics, macro-marketing, social exchange, and systems. The first way to address the issue what philosophy dominates marketing would be to systematically analyze all the research programs associated with the twelve schools of thought centering around their philosophical foundation. The second way to approach this question would be to examine and

identify the underlying characteristics of marketing. In this regard, one should bear in mind that logical positivism and logical empiricism holds that all the "theoretical" terms in a theory must be defined in terms of "observable. " On the other hand scientific realism holds that "theoretical" terms may denote a real existence and, therefore, our response may result in the measure of the level of presence or absence of an entity which may at times be unobservable.

Thus, in summary one can state that, whatever be the philosophical "ism" it does have a relationship with marketing philosophy. The final and most accurate answer to the question what dominates marketing would be: "No single philosophy dominates marketing, rather each and every philosophy be it, Platonism, classical empiricism, classical rationalism, historical relativism, scientific realism, etc. , in one form or the other help in explaining the marketing phenomena. "

The Scope of Marketing

The scope of marketing is unquestionably broad. This basic observation spurred the development of a classification scheme for marketing. The model (Table 2. 1) of the scope for marketing was first proposed by Hunt (1976) in his article entitled "The Nature and Scope of Marketing. " The model has come to be known as the Three Dichotomies Model of Marketing.

Table 2. 1: The Three Dichotomies Model of Marketing

Profit Sector¹ (Micro⁵)	
POSITIVE³	NORMATIVE⁴
Problems, issues, theories, and research concerning: <i>a. Individual consumer buyer behavior</i> <i>b. How firms determine prices</i> <i>c. How firms determine products</i> <i>d. How firms determine promotion</i> <i>e. How firms determine channels of distribution</i> <i>f. case studies of marketing practices</i>	Problems, issues, normative models, and research concerning how firms should: <i>a. Determine the market mix</i> <i>b. Make pricing decisions</i> <i>c. Make product decisions</i> <i>d. Make promotion decisions</i> <i>e. Make packaging decisions</i> <i>f. Make purchasing decisions</i> <i>g. Make international marketing decisions</i> <i>h. Organize their marketing departments</i> <i>i. Control their marketing efforts</i> <i>j. Plan their marketing strategies</i> <i>k. Apply systems theory to marketing problems</i> <i>l. Manage retail establishments</i> <i>m. Manage wholesale establishments</i> <i>n. Implement the marketing concepts</i>

Profit Sector (Macro⁶)	
POSITIVE	NORMATIVE
Problems, issues, theories, and research concerning: <i>a. Aggregate consumption pattern</i> <i>b. The institutional approach to marketing</i> <i>c. The commodity approach to marketing</i> <i>d. Legal aspects of marketing</i> <i>e. Comparative marketing</i> <i>f. The efficiency of marketing systems</i> <i>g. Whether the poor pay more</i> <i>h. Whether marketing spurs or retards economic development</i> <i>i. Power and conflict relationships in channels of distribution</i> <i>j. Whether marketing functions are universal</i> <i>k. Whether the marketing concept is consistent with consumers' interests</i>	Problems, issues, normative models, and research concerning : <i>a. How marketing can be made more efficient</i> <i>b. Whether distribution costs too much</i> <i>c. Whether advertising is socially desirable</i> <i>d. Whether consumer sovereignty is desirable</i> <i>e. Whether stimulating demand is desirable</i> <i>f. Whether the poor should pay more</i> <i>g. What kinds of laws regulating marketing are optimal</i> <i>h. Whether vertical marketing systems are socially desirable</i> <i>i. Whether marketing should have special responsibilities</i> <p style="text-align: right;"><i>(Contd...)</i></p>

Non-profit Sector² (Micro)

POSITIVE	NORMATIVE
<p>Problems, issues, theories, and research concerning:</p> <ul style="list-style-type: none"> a. <i>Consumers purchasing of public goods</i> b. <i>How nonprofit organizations determine prices</i> c. <i>How nonprofit organizations determine products</i> d. <i>How nonprofit organizations determine promotion</i> e. <i>How nonprofit organizations determine channel of distribution</i> f. <i>Case studies of public goods marketing</i> 	<p>Problems, issues, normative models, and research concerning how nonprofit organizations should :</p> <ul style="list-style-type: none"> a. <i>Determine the marketing mix (social marketing)</i> b. <i>Make pricing decisions</i> c. <i>Make product decisions</i> d. <i>Make promotion decisions</i> e. <i>Make packaging decisions</i> f. <i>Make purchasing decisions</i> g. <i>Make international marketing decisions (e. g. , CARE)</i> h. <i>Organize the marketing efforts</i> i. <i>Control their marketing efforts</i> j. <i>Plan their marketing strategy</i> k. <i>Apply systems theory to marketing problems</i>

Profit Sector (Macro)

POSITIVE	NORMATIVE
<p>Problems, issues, theories, and research concerning:</p> <ul style="list-style-type: none"> a. <i>The institutional framework for public goods</i> b. <i>Whether television advertising influences elections</i> c. <i>Whether public service advertising influences behavior</i> d. <i>Whether existing distribution systems for public goods are efficient</i> e. <i>How public goods are recycled</i> 	<p>Problems, issues, normative models, and research concerning :</p> <ul style="list-style-type: none"> a. <i>Whether society should allow politicians to be "sold" like toothpaste</i> b. <i>Whether the demand for public goods should be stimulated</i> c. <i>Whether "low informational content" political advertising is socially desirable</i> d. <i>Whether the Army should be allowed to advertise for recruits</i>

Source : Hunt S D. *Modern Marketing Theory : Critical Issues in the Philosophy of Marketing Science*

The construct used by Hunt are described below:

1. *Profit sector* includes the study of organizations or other entities whose stated objectives include the realization of profit.
2. *Nonprofit sector* includes the study and perspective of all organizations and entities whose stated objectives do not include the realization of profit.
3. *Positive marketing* adopts the perspective of attempting to describe, explain, predict, and understand the marketing activities and phenomena that actually exist.
4. *Normative marketing* adopts the perspective to prescribe what marketing organizations and individuals ought to do or what kinds of marketing systems a society ought to have. That is, this perspective examines what ought to be and what organizations and individuals ought to do.
5. *Micro marketing* is referred to the marketing activities of individual units (firms and consumers or households).
6. *Macro marketing* is referred to a higher level of aggregation, either marketing systems or groups of consumers. Thus macro marketing refers to the study of, marketing systems, the impact of marketing systems on society, and the impact of society on marketing systems.

The Functions of Marketing

Interestingly, one of the first definitions of marketing functions originated under total anonymity (Lewis and Erickson 1969). It was defined as "a major economic activity, which is inherent in the marketing process, pervades it throughout, and which through a continuous division of labor tends to become specialized. " Although there was considerable disagreement as to which activities were "major economic" ones, the definition in itself was instructive in that it made clear that the activities were inherent, pervasive, and either specialized or likely to become so. In 1950, McGarry showed his concern for the state of the functional approach to marketing and attempted to clarify the meaning of the concept marketing function. He stated that the function of marketing should denote a certain purpose in the marketing process; and the term should be used only in connection with activities that must be performed in order to accomplish the general purpose. Thus, he attempted to relate function to purpose and also to revert to the earlier notion that the function should be considered as inherent in the marketing process.

Lewis (1964) Agreed with the McGarry's definition, specifically with his notion that a marketing function not only relates to purpose but also is inherent in the marketing process. However, he stressed that there are two functions (purpose) of marketing - to obtain demand and to service demand. In addition all of the activities in which we engage in marketing are means to attain these. According to the author when functions are regarded as inherent and as identifying the purposes of marketing, the result is the identification of what marketing does (its ends).

However, to identify the activities of marketing (its means) is to determine how marketing accomplishes its functions. Advertising represents non-personal mass persuasion, personal selling represents personal individualized persuasion, sales promotion represents special promotions on a noncontinuous basis, and merchandising represents continuous adjustments to the products and services to fit changes in consumer taste and habits. These are descriptions of marketing activities, but their common function is to obtain demand for the firm's goods and services.

Based on the above philosophy Lewis and Erickson (1969) outlined the functional approach described in Figure No. 2. 1. The two purposes of marketing - obtaining and servicing demand - are shown as its functions. In addition three sets of activities are:

1. Those involved in obtaining demand.
2. Those involved in servicing demand.
3. Those which cut across and permeate the obtaining and servicing activities.

possession utility, as contrasted with the form utility which is said to result from production. Amongst the intangibles include, whatever the marketer does to easily and conveniently satisfy his needs and thus reduce the cost of marketing for the buyer. Another intangible is represented by the breadth of selection offered to the consumer. The breadth available serves to reduce the risks that the product purchased or service sought will not serve the consumer's need effectively. This implies that the consumer has at his disposal the element of choice, which helps the consumer to shift from one product or service to another.

The simplest form of a marketing system where there is no competition, so that the firm and industry are identical was illustrated by Kotler (1966) as depicted in Figure 2. 2.

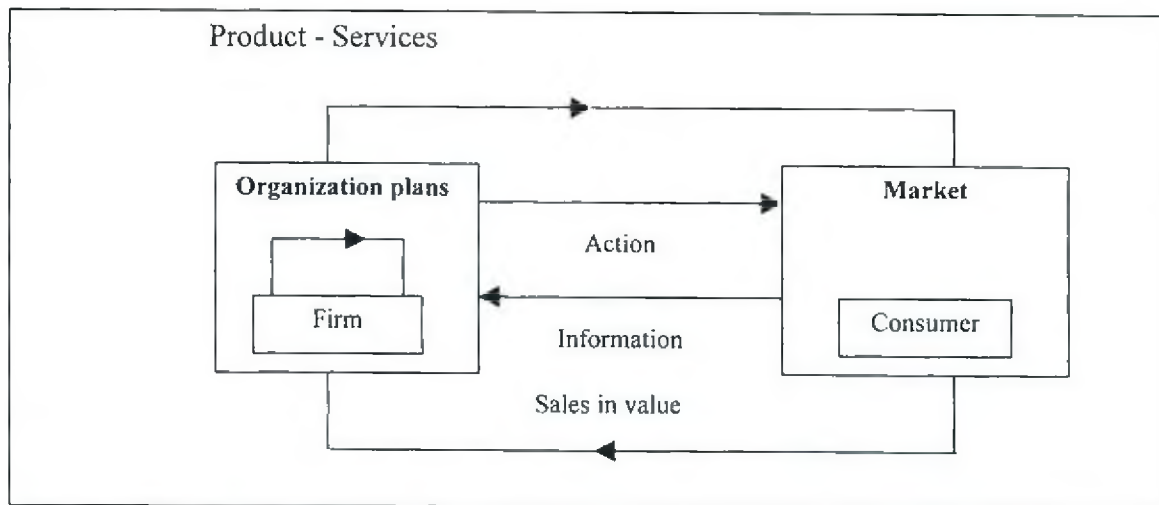


Figure 2. 2: A Simple Marketing System

The system is made up of two primary elements: the marketing organization or firm and the market or consumers. Linking these elements are three communication flows of exchange. The firm communicates to the market through various marketing actions. In return the response

from the consumers is sought in terms of sales. In the internal flow of information the firm makes plan for future actions on the basis of current and past performance.

The simple marketing system model discussed above, like many economic models of competition, has a certain conceptual appeal, but its value in describing real world markets is limited. Since the purpose of marketing system is to build models of markets that are representative of the real world, many real complexities of marketing are not embodied in the model. Some of such complexities, which must be handled in development of marketing system models, has been identified by Parsons and Schultz (1976). They include:

1. *Organizational complexities.* The behavioral process in an organization that is primarily due to multidimensional human behavior within the organization. Thus the interpersonal relationship as well as association of individuals with the organization becomes part of the system.
2. *Multiple products-services.* Most of today's modern marketing organizations offer more than one product or service mixes. Thus the interrelation between the products plays a vital role. The entire marketing plan of the organization not only considers the individual products but rather translates this into the objectives and missions of the organization itself keeping in perspective the rest of the functional areas.
3. *Market complexities.* The market for a product or service is generally heterogeneous and this complexity has important implication in marketing research. This is more so in a more competitive environment where the customers have access to more then one product or

brand. In addition as the society gets more segmented the complexities within the market increases.

4. *Complex actions.* The firm comprises of various variables, which it can change in order to influence sales. The combination or mix introduces an element of competition. This happens due to the fact that each alternative is supported by a group of people belonging to a school of thought, thus each tries to defend his own ideas bringing in competition and thus complex actions.
5. *Complex information.* A firm selling a product in a well-defined market segment using multiple marketing instruments (or even a single instrument) initiates complex patterns of consumer behavior. Thus the information obtained either through the marketing research process or the marketing information system results in associated complexities.
6. *Middlemen.* The simple marketing system does not comprise of a middlemen. In most marketing systems this is an inadequate description because it omits the important role of the middlemen. The length and the width of the middlemen essentially decides the complexity prevailing in the marketing system.
7. *Competitors.* One of the principal justifications of marketing is its concern with real marketing system and hence competitive markets. The effects of competition is one of the most challenging problems of marketing science.
8. *Marketing Dynamics.* Marketing systems are dynamic. Even within the shortest time horizons, planning delays, executive delays, and lagged market responses the dynamic nature of marketing persists and continues with its own pace.

Based on the above theoretical base the model of the "basic Marketing System can be illustrated as shown in Fig 2. 3. The figure depicts the conceptual model, which is thus general in nature and may vary in terms of specifics.

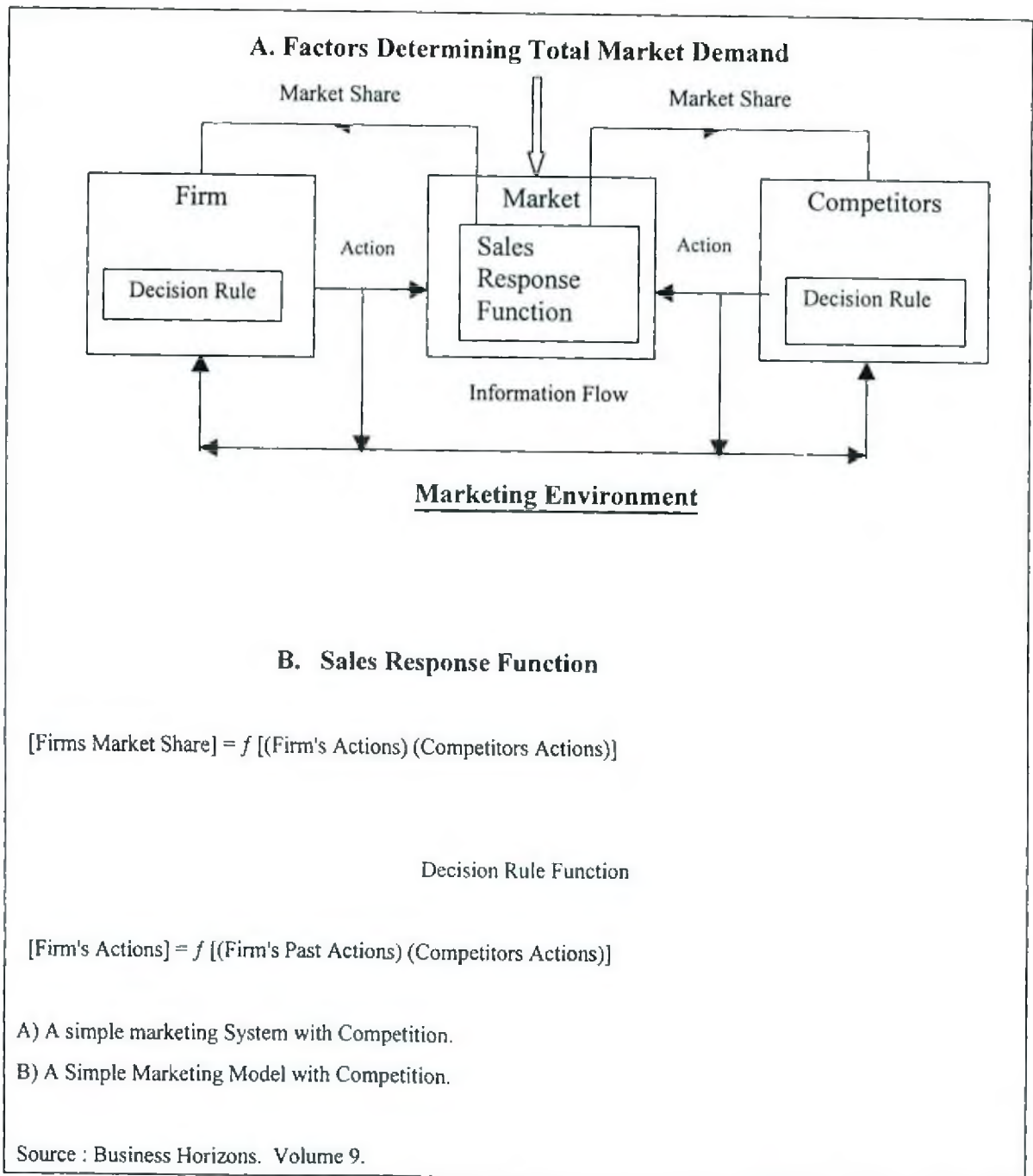


Figure 2. 3: Basic Marketing System

CHAPTER III: REVIEW OF LITERATURE ON INFORMAL SECTOR

Definitional Issues in Informal Sector

Researchers and Public Planners are of the opinion that there is no one standard definition of Informal sector and it is at times synonymously used making it very difficult to distinguish from underground economy, small scale industry, income generating activity, subterranean economy, counter economy, twilight economy, shadow economy, submerged economy, illegal economy, invisible economy, parallel economy, second economy, moonlighting, etc. In addition each of the above has been defined in different ways by the researcher and public planners.

Humphreys (1985) introduces this economic sector by emphasizing that "Underground Economy bring to the mind the story of the blind men describing an elephant. " The review of the literature indicates that the terminology remains non-standardized. She stresses that the definition of underground economy varies as much as the terminology used for the concept. She states that some authors include income generated from barter, while some do not. Some define the underground economy as economic transactions that involve payments of money and/or exchange of services, which are not considered in the Gross National Product (GNP). Others see it as the sector made up of individuals and /or corporations engaged in practices designed to

evade taxation. These practices may be illegal activities, (drug dealing, gambling, prostitution, etc.), or they may be legal where all or part of the income is not declared to tax authorities. Some authors also include tax avoidance (e. g. tax shelters, legal loopholes, etc.) along with evasion and refer to this as the underground economy. In sum, the underground economy has many facets, not all of which may be included in any particular research or study framework.

Henry (1987) highlighting the aspects associated with the definition of informal economy observed, "Defining and classifying what counts as informal economies is . . . complicated . . . indeed, the problem is reflected in the profusion of names that informal economies have attracted . . . in addition to . . . titles of underground, unobserved, and hidden, these activities have been described as informal, irregular, cash, black, unofficial, unrecorded, moonlight, twilight, grey, shadow, subterranean, marginal, dual, second, parallel, and illegal. " The choice of term generally reflects the perspective of the context to which the construct are referring to. For example, moonlight refers to employment, unreported refers to tax administration, illegal refers to law enforcement, etc. In summary the author observed that a generally accepted taxonomy had not as yet emerged.

Most of the definitions/classifications are based on the aspect of legal entity, monetary investment, number of workers employed, employment status, type of technology used, financial and physical support, etc. The exact status of illegality or the investment size labor employment, and the like remains unknown in most of the cases. A list of definition is provided in Appendix II that may be used in understanding the Informal Sector.

It is evident from the literature survey that an informal sector is yet to be adequately defined in terms of standard quantitative or qualitative criteria, nor the same definition is appropriate throughout the economy (Guerguil, 1989; Raymond, 1987; Ferman et. al 1987, Paquet, 1988). It may therefore be concluded that most of the definitions are merely a working definition, which are contextual for purpose of specific designed study. It is obvious that most of the research on the informal sector is situation specific. It is thus essential to develop a standard definition which should be used is generalizing the issues associated with informality and to assess the status of the units within the Formal-Informal dictionary.

It is explicit from the above that a study to classify informal sector needs to be undertaken. Paquet (1988) underlines a classification of the underground economy based on its market and non-market components:

1. Underground Market Production (BLACK)
 - a. Legal undeclared production (clandestine workers and firms).
 - b. Hidden income in kind (time and resource theft).
 - c. Illegal production of goods and services (prostitution, drug deals).
2. Underground Non-Market Production
 - a. Domestic production (home).
 - b. Community production (parish, neighborhood).
 - c. Associative production (nation/region/section not for profit activities).

Another possible framework based on the literature survey is given as:

1. Societal Sub-Sector

- a. Manufacturing.
- b. Service.
- c. Domestic Activities.
- d. Hawking/Retailing.
- e. Labor Markets.

2. Anti- Societal Sub-Sector

- a. Smuggling.
- b. Drug Trafficking.
- c. Black-Markets.
- d. Anti-social Accounting.

The Importance of Informal Sector

The importance of small enterprises for third world countries such as Bangladesh is very appropriately described as: "The role and importance of Small Scale Industries for the local

economy is due to their characteristics, which include the following: First, Small Scale Industries are highly labor intensive. This gives reason to say that the development of local Small Scale Industries is to be seen not only as an important element of policy to create local employment but also to redistribute income within the local economy. Second, The majority of Small Industries are located in rural areas and are mainly agricultural oriented activities, both from the supply and the demand side, or via production and consumption linkages, of the industries. This may be the primary reason of the growing interest on the role and importance of Small Scale Industries". (Tambunan, 1992).

While looking at the rest of the world it is evident that the informal sector is portraying similar phenomenon. Tokman (1978) clearly elucidated, "The informal sector should be seen neither as a completely integrated nor as an autonomous sector, but rather as one with significant links with the rest of the economy". Sandaratne (1991), illustrated the contribution of informal sector and outlined how informal sector had a significant link with rest of the economy in Sri-lanka. The author elucidates how the informal enterprises are an integral part of the social fabric. There is a growing official recognition that self-employment essentially alleviates unemployment and contributes significantly to the economy of a country. According to Portes (1987), "informality is a universal phenomenon". Halvorson (1992) stated that in the developing world, goods and services were more often provided by very small enterprises termed as micro enterprises, which were mostly part of the informal economy. Thriving communities of micro enterprises permit individuals to bring about micro economic changes that, in the long run, can lead to broader structural change in the economy, at large. Practically, micro enterprises are participatory development initiatives.

Banerjee (1982) highlighted the importance of informal economy in the national economy of India and showed that the sector accounted for more than 40% of employment in most of the major cities of India. The article also gives an account of how the poor people survive by mobilizing their meager resources in the informal economy. The 50% of the entire work force in case of Thailand accounts for informal sector (Poapongsakorn, 1991). The total size of the informal economy in the United States in the year 1981 stood at \$ 42 billion (Smith 1987). A recent study by Speer (1995), states that each year, as much as \$ 1 trillion goes unreported in the United States, the amount appears to be growing due to the rapid increase in small service companies mainly employing illegal immigrants. Similarly, the importance of informal sector is quite evident in many parts of the world. Studies in Indonesia (Gerry, 1993), Kenya (Macharia, 1992), most of Africa (Lubell, 1990), and Canada (David, 1986) revealed a similar pattern.

In his study (1989) De Soto stressed the importance of informal sector further by showing how the informal economy in trade, housing, and transportation provided basic solution for the masses. He suggests that informal economy is the people's spontaneous and creative response to institutional bottleneck. Gershuny (1987), outlined the importance of the informal economy by citing an example from the entertainment industry. The author indicates that the contribution of the informal economy has been overwhelming; he stresses that the development of the entertainment industry was due to the informal nature of the enterprises, which had no opportunity for development in the formal sector during the early days. Even today the industry to a great extent is informal and taking great strides towards development.

Miller (1987) felt that ". . . the informal economy is durable, pervasive and flexible". As a consequence, all types of national economies will experience similar set of phenomena that resemble informal economies in their non-officialdom.

In his study on informal sector in Bangladesh, Amin (1987) strongly emphasized, ". . . the informal sector offers income-earning opportunities to a large number of disadvantaged people who have no access to formal avenues of income and employment". Huq and Sultan (1991), quoted from the 1988 conference on micro-enterprises, "informal sector will be the major development agent for employment creation, income generation and social stabilization in the next decade".

Growth of the Informal Sector

Based on secondary research it may be concluded that the informal sector is one of the major economic growth centers throughout the world which contributes to both GDP and employment opportunity. The increasing influx of the rural population in the urban centers has resulted in an un-controlled growth of this sector in and around the urban centers, which happen to be the major market. However, the business practices prevailing in this sector is relatively unknown compared to the formal sector. Some of the major factors contributing to the growth of the informal sector and the way they create an impact on such growth is outlined below:

Migration

Migration is considered as one of the major reasons behind the growth of the informal sector. Migration in most cases has been found to follow a rural to urban flow (Amin 1987). Similar phenomenon is also observed in case of the Indian migrants (Banerjee, 1983 and Banerjee, et. al. 1994). In assessing the reasons for migration Gupta (1993), stressed ". . . an increase in the subsidy given to rural employment leads to an increase in urban employment". This is suggestive of the growth of informal sector, which is attributed largely to the urban employment. The author argues, ". . . a policy that leads to more food production causes the amount of food available for urban consumption to expand, so the urban labor force expands".

While explaining the phenomena of migration Gary (1990) used Todaro (1969) model, which stated that, unemployment rate in a city might actually show how efficient or entrepreneurial the population was. One can relate entrepreneurship with informal sector growth by suggesting that entrepreneurial growth is proportional to informal growth. This can be derived from the following mathematical representation used by Todaro (1969):

$$N = x + \{(1-x) \times k\} + \{(1-x)(1-k)\} \text{-----} 3.1$$

N = Potential labor force.

x = Employment in modern sector.

k = Probability of unemployment in city.

Employment Opportunity

While explaining the formal - informal linkage in terms of productivity and wages, Sarthi (1983) further states, ". . . the necessary condition for the informal sector existence is the continued relative advantage the formal sector obtains by linking with the informal sector for any activity". If P_1 and P_2 are the productivity of the same operations when alternatively performed by the formal and informal sector, and W_1 and W_2 be the wages to be paid accordingly, Then the following equation holds :

$$P_1/W_1 < P_2/W_2 \dots\dots\dots 3.2$$

Hilbert (1994) emphasizing upon the global economic trends for the 1990s on liberalization of trade, deregulation of labor markets, government fiscal reforms, and privatization of state owned enterprises, indicated that this essentially resulted in increase in the world unemployment figures. He stressed that unemployment rates had led to the growth in the informal economy. A relationship between employment shifts from the formal to the informal and vice versa due to income equality during the economic development was shown by Rauch (1993). The author shows that with development, inequality tends to follow an inverted U. It rises when urbanization is low and consequent pressure on the land keeps rural incomes low, making workers willing to incur high risks of underemployment in the urban informal sector. It eventually falls after urbanization and consequently rural income has increased sufficiently to allow workers to earn better in the urban industrial sector.

Tax Evasion

The general argument that taxes associated with goods and services would tend to keep people out of business is another major factor contributing to the growth of the informal sector. Lorinc (1992) in his study stressed upon the fact that such taxes tended to be advantageous for the tax evaders operating in the underground economy. The tax payers basically fail to compete under additional stress and thus depart from the scene. Halvorson (1992), supported the above contention, emphasizing that with the increase in unemployment and lack of opportunity in the formal sector individuals throughout the world and more so in the developing economy get involved in self-employment. The basic characteristics of these units are micro in nature which operate in the informal sector.

The tax advantage exists not only during the manufacturing process, but it also exists during the marketing operation. The usual marketing channel of the informal sector consists of traditional vendors who operate at reduced costs and at the same time provide opportunity for tax evasion. It is observed (Petche 1992), that vendors cut down on the normal retail outlets. They evade taxes while marketing products of the formal sector. It probably would be beneficial for the formal sector enterprises to allow the inclusion of informal products in the informal outlets to have more competition.

In assessing critically the economic status of the informal sector, it is evident that if one of the major factor contributing to the growth of the informal sector is tax evasion, the economic return from the sector is too low to survive. Jung et al (1994) further showed that a rise in the tax rate increased the number of agents in the underground sector in which tax evasion was possible, if preferences would exhibit increasing relative risk aversion. Main Jeremy (1989) outlined some of the "paths". Hernando de Soto, the Peruvian economist suggested, ". . . this entrepreneurial sector could foster higher living standards, contributing to international trade, and help developing countries service their external debts more easily". The recommendations include:

1. Reduce regulations that force entrepreneurs underground.
2. Legalize businesses already underground.

Moreover, according to Terblanche (1991), it is likely that if informal retail sector is not legalized they may start operating independently as a parallel economy.

Subcontracting

As it has been observed earlier one of the major advantages the informal sector have over the formal sector is cost structures. It seems likely that larger firms as well as smaller ones to a certain degree take advantage of this factor by subcontracting some of its operations to the smaller organizations resulting in further growth. The three primary reasons for subcontracting as described by Heemst and Jan (1984) are:

1. cost considerations,
2. scarcity or lack of necessary inputs, and
3. shorter-term capability considerations.

Mead (1984) also discussed how the increasing complexity in production and distribution that accompanies development provided opportunities for small firms to participate by undertaking a limited range of activities in vertically disintegrated systems through subcontracting.

Economic Status

Joseph (1987) stressed that informal growth was prevalent more in the third world than in the developed economy. This is the case when there is a shift from large scale labor intensive manufacturing to an industrial development process which is both capital intensive and high tech as it is seen in the world of today. Due to such transfer large groups are often left in marginal economic situation, resulting in relapsing of family bondage within shanty urban areas which inform result in the birth of informal sector. In the case of the post-industrial societies, the growth is more prevalent in case of the more affluent population. The analyst argues, ". . . when manufacturing fails to create jobs commensurate with the demand for them, resources may be more fruitfully reinvested in family and domestic production".

Raymond (1987) in his study indicated that loss of employment had implications for the degree of involvement of household members in other forms of work. There is no direct substitution of various forms of informal work for the loss of employment. It is also perhaps significant to highlight that the household members may also participate in the informal sector if the monetary return from the formal sector is not adequate for the household. Thus, under such situations the individual is using informal sector for incremental revenue.

The contribution of the informal sector to the overall growth of the national economy in terms of GDP has been calculated by Sanderatne (1991) as:

$$\text{GDP} = y_f + y_i + y_o \dots\dots\dots 3.3$$

Where,

y_f = output in formal sector already included in GDP estimates.

y_i = output in informal sector already included in GDP estimates.

y_o = output of informal sector not included in GDP.

Since only y_f and y_i are included in GDP, the actual contribution of the informal sector is

$$(y_i + y_o) / (y_f + y_i + y_o) \dots\dots\dots 3.4$$

Structural and Cultural Issues

Sampson (1987) suggests that informal growth is directly related to certain structural and cultural characteristics prevailing in the economy. Informality in the economy is more prevalent and found to be more extensive in countries where:

1. There is a large private sector particular in terms of number of units.
2. Rural population is relatively large compared to the urban population.
3. Official economy is less effective due to bureaucracy, corruption, political instability, etc.
4. Basic commodities are not readily available or are expensive.
5. Influence of tourists or foreigners is high.
6. Control organs, which include the police and the justice system, are less effective.

Price Factors

Henry (1987) stressing on the price factor adds that when protectionist attitude exists and goods and services are not widely available or prices are beyond the purchasing capacity of a sector of the community, it directly results in the emergence of a market outside the formal economy to ensure availability of cheap goods and services. The above phenomena could also be analyzed in terms of what Sampson identified as lack of purchasing power. This could be due to either a large poor population emerging due to inequality in economy or stringent laws.

It is evident from the information provided in this section, that, several actors and factors contribute towards the growth of informal sector. These actors/factors to a great extent have been identified, but are difficult to measure though some insight towards such measurement has been forwarded. An actual designing of a model depicting the aspect of "factors or actors influencing growth" and developing a technique for measuring such growth is yet to be designed.

It is however surprising that though the informal sector has grown over the years and contributed substantially to the economy of the country it could not as yet make much headway as a sector. One of the main reason behind this failure is the complex linkage between production and marketing (Anwar, 1989). Another important factor is the lack of understanding of the small sector (Sarder, 1990).

Complexities in Informal Sector

Due to the nature, the lack of understanding and inadequate research in the informal sector it may be reasonably said that our knowledge of the informal sector is inadequate because we do not have a comprehensive understanding of the area. It can be seen that every compilation of literature on informal economy is only a portion of the jigsaw puzzle. The major perspectives, which can be used to analyze complexities of the informal economy, can be categorized into:

1. economic,
2. social,
3. fiscal & regulatory, and
4. employment & demographic.

Economic Perspective

The economic perspective within its realm may include the following:

1. Emphasizing on economic measurement: which includes measures such as household production or family production, etc. Miller (1987) states that measures of these over the years have been ignored by the policy makers and need to be re-examined in order to include these economic activities in the social accounting of an economy of a country. Poapongsakorn (1991) states that economic features such as labor market conditions and competitive behavior in the labor market cannot be measured and thus the aspect of measuring informality is difficult. Gershuny (1987) however identifies that economic statistics has given very little in terms of "peoples use of time"; he suggests that this may be undertaken using the method of time budget survey.
2. Enterprise functioning: is the aspect by which the informal economy works both as supplementary and complementary to the larger firms. Such a functional dependence is needed, to reach economies of scale for both the formal and the informal economies.

Under such circumstances, it is at times very difficult to separate the contribution of informal sector in terms of production.

3. Alternative economic system: implies that the informal economy is the "desirable means of the future", purely because it is more "green" compared to the larger enterprises. This sector has potential to grow as the economy grows.
4. Income generation: it is seemly considered to be part of the supplemental income earning activity, which in turn can be measured in terms of share of contribution to the household. Gershuny (1987) suggests to develop a system of accounts called the "socio-economic accounts," that would include both the formal and informal economic activities.

Social Perspective

According to Miller (197), this includes five major issues:

1. Gender: contribution of women, specifically at the household level. The dual burden of women against men is an issue. Raymond (1987) calls it "self Provisioning. " Hoyman (1987) shows that the participation of women in the informal economy is much more compared to their male counterparts. In addition, the author shows that the women like that in the formal sector are no better off. Further, he reckons that the participation of women in the informal economy is comparatively more than what it is in the formal economy.

2. Marginality: those who work in this sector in one form or the other are marginalized by ethnicity, race, immigration status, or geographic isolation. Thus, the supply of labor with respect to the social structure needs to be considered. When considering the developed nations it is observed that illegal migrants are involved in this sector, which results in discrimination. Furthermore, due to the element of illegality the difficulty in measurement also increases, since information cannot be easily obtained.
3. Family: the stress is more on family as an economic unit, it considers family as a production unit rather than a consumption unit.
4. Community: it also encompasses the community in terms of the non-monetary exchange between families based on reciprocity and mutuality. Raymond (1987) calls it "working on the side."
5. Service provision: it provides the poor community items for consumption, which otherwise would have been too expensive if marketed by formal chains.

Poapongsakorn (1991) stresses that considering all the social service activities as informal is not satisfactory because distinction between formal and informal services is lacking in many cases.

Fiscal and Regulatory Perspective

Four major perspectives has been identified in the literature:

1. **Fiscal:** an enormous loss of tax revenues occurs due to functioning of the informal economy. Suggestions have been put forward to ensure a formal operation to benefit the economy rather than to make the tax laws more stringent. Such stringent and bureaucratic approach are believed to have resulted in manipulation and inadequacy in the overall national accounts.
2. **Justice System:** Justice should prevail, since it has been observed that the informal economy belonging to the lower echelon of the society are punished much more than those belonging to the high ups. This is considered as an additional factor contributing to the informal sector which has been becoming a part of hidden economy.
3. **Crime:** Many authors have incorporated crime as part of the informal economy. This attributes more towards degrading then positive image of the informal economy. The perspective of crime is associated with tax evasion perhaps needs to be analyzed.
4. **Regulations:** this orientation is concerned with the informal economies. Violation of laws regulating labor practices- violation of minimum wages; working conditions, child labor, etc. are the concerns. The aspect of social expenditure vis-a-vis codes that protect those involved in employment are unfortunately not analyzed. Poapongsakorn (1991), while analyzing the illegal part of the informal economy in Thailand states that, illegality arises due to the laws which ban informality to the extent that vendors are not allowed to sell in the

streets. Other causes of informality include import duties, labor protection laws, and costs of registration. However these, specifically the last one, have become less important in recent years.

The stringent laws also force the informal units to become mobile and micro in terms of production. Thus, it becomes extremely difficult for the researchers to actually study the characteristics of these informal enterprises. In addition, the hide and seek phenomenon essentially hampers the operation of the informal enterprise, inflicting losses which ultimately have an impact on the economy.

Employment & Demographic Profile

The employment in the informal sector has been classified in several ways. Wages, employee size, and capital being some of the more common classificatory factors. Telles (1993) classifies informal work force in terms of the protection they get at their work place. The three employment categories, which he has identified, are:

1. protected self employed workers,
2. unprotected workers, and
3. paid domestic workers.

The findings also state that involvement of women in the informal sector is more and at the same time are worse-off than their male counterparts. The demographic profile of the informal employees in the Brazilian economy has also been studied by Telles (1992). These studies essentially call for a certain degree of standardization to help minimize the complexities existing in the subject matter.

Dasgupta (1973) estimates that 33.7% of all jobs are created in the informal sector in Calcutta. He also discusses the livelihood and earnings of workers in informal sector and concludes that the informal sector should be included in the national economic planning. The author also argues that most of informal jobs are unproductive and have little contribution to GNP and that these often cause urban congestion and immobility of resources. Gerry (1979) maintains a similar opinion predicting very little improvement in the living and working conditions of the informal sector workers without fundamental changes in the economy. Raymond (1987) maintaining a softer tone states that the informal employment is generally looked upon as an illegal activity which has grown due to weaknesses existing at the information collecting method. Such outlook of the informal sector further complicates the understanding of the informal sector, because all the beggars and the un-employed at the lowest ebb of the economy represent informal sector.

Teilhet-Waldorf (1983) on the other hand finds that, informal workers have a higher income than unskilled workers in the formal sector. They work longer hours, and are comparatively more skilled. Amin (1987) also has similar findings, manifesting, "the income of

both the self employed and the total labor force in the informal sector is greater than that of the wage earners in the formal sector. "

Alonzo (1991), rejects the conventional view that the informal enterprise is poor in physical and human capital, and is incapable of coping with a hostile environment. He suggests that the entrepreneurs of the informal sector behave like any other rational economic agents, while responding to the environment they face, and weighing the cost and benefits of relative their position. Miller (1987) suggests that economic functioning relates to the reduction in unemployment due to increase in entrepreneurship. It is also observed that for the labor force it may be looked upon as a jumping board for those who wish to venture into the mainstream economy in the future. Furthermore, as the labor market is mostly dependent on migrants, a great deal of movement between the rural and the urban and also between formal and informal takes place. The mobility within the informal economy is very high which makes it difficult to quantify the numbers.

Future Implications of the Informal Sector

In assessing the future of economic development, Geddes (1993) highlights on the following three factors which according to the author are expected to have a profound impact on economic development in the 1990s:

1. the pervasive trend towards entrepreneurship and self-employment,
2. the profound concerns that all people should have for the earth and all its creatures, and
3. the idea of global environment.

The entrepreneurship and self-employment, which top the conceptual list, emphasize the importance of informal sector, which is a product of entrepreneurial activity and essentially holds a self-employment characteristics.

With the advent of market economy, major changes are expected to take place, these macro level changes will definitely lead to re-adjustments in the operating system of the informal sector. Gerry (1987), suggests that the future is in the informal economy, specially for the third world. The author suggests that the informal sector has a laissez-faire outlook and due to the fact that free market gradually is taking over the third world economies, informal markets are destined to grow. This is likely to have an impact on the larger enterprises due to its laissez-faire nature suggesting a peak of liberalization.

Mabogunje et. al (1991) underscore that certain major changes needs to be undertaken to face the competition in an open market economy, specifically in the case of LDCs. The areas of attention as focused by the authors are:

1. improving the productivity of urban economic activity,
2. alleviating growing urban poverty,
3. improving the management of the urban environment, and
4. improving understanding of the urban issues.

Similar suggestions have also been outlined by Elkan (1988); his study outlines the strategic actions the Government should take to provide greater opportunities to smaller businesses run by Africans. The author identifying informal sector as one of the major sources of entrepreneurial activity and argues that measures such as lower taxes, subsidized credits, cheaper business premises, and management training programs have not been successful in promoting the informal sector. He suggests that general improvement in the economic environment and sound growth policy has more profound and positive impact. An analysis by Gary (1991) while excepting the notion that "a healthy small business sector is the backbone of any developed economy," raises the following questions regarding developing countries:

1. What will be the extent of entrepreneurial success based on external constraints?
2. What is the optimal mix of large and small business for development of any given economy?
3. How can internal and external components be shaped to provide a competitive advantage for development of entrepreneurship? and,
4. What kinds of internal and external 'component innovations' should different aid agencies support for optimal economic development?

Salahdine (1991) provides a similar analysis stating that the success of the informal sector to a great extent indicates a definite growth of entrepreneurial energy. Thus, a poor country with extensive entrepreneurial capacity is lacking behind, indicates that it is not so because of its entrepreneurial incapability but probably because of "stumble blocks" in the formal economic development policies. There is no doubt that the informal economy does not have the efficiency of the formal sector nor does it have the support to achieve efficiency prevalent in the management setup of the formal enterprises. The above phenomenon reduces the informal sectors contribution to economic and social development. It is thus essential to provide assistance to these informal units in the areas of primary materials, management, and credit. This would call for redistribution of revenue, not through taxation or subsidization, but through an economy that favors to start activities, liberation of creativity, social mobility, property rights, and free access to markets.

Fall (1989) on the other hand has emphasized upon micro-level issues such enforcement of direct support towards the venturing units. Do Vale (1988), from Brazilian point of view, similarly emphasizes that the members of the informal sector need to be organized to be able to successfully bring about changes and to secure the implementation of policies designed to serve their interest. In case of Bangladesh (Amin, 1987), placed two broad suggestions:

1. legalization of the informal sector and
2. policy implementation based on informal sector development.

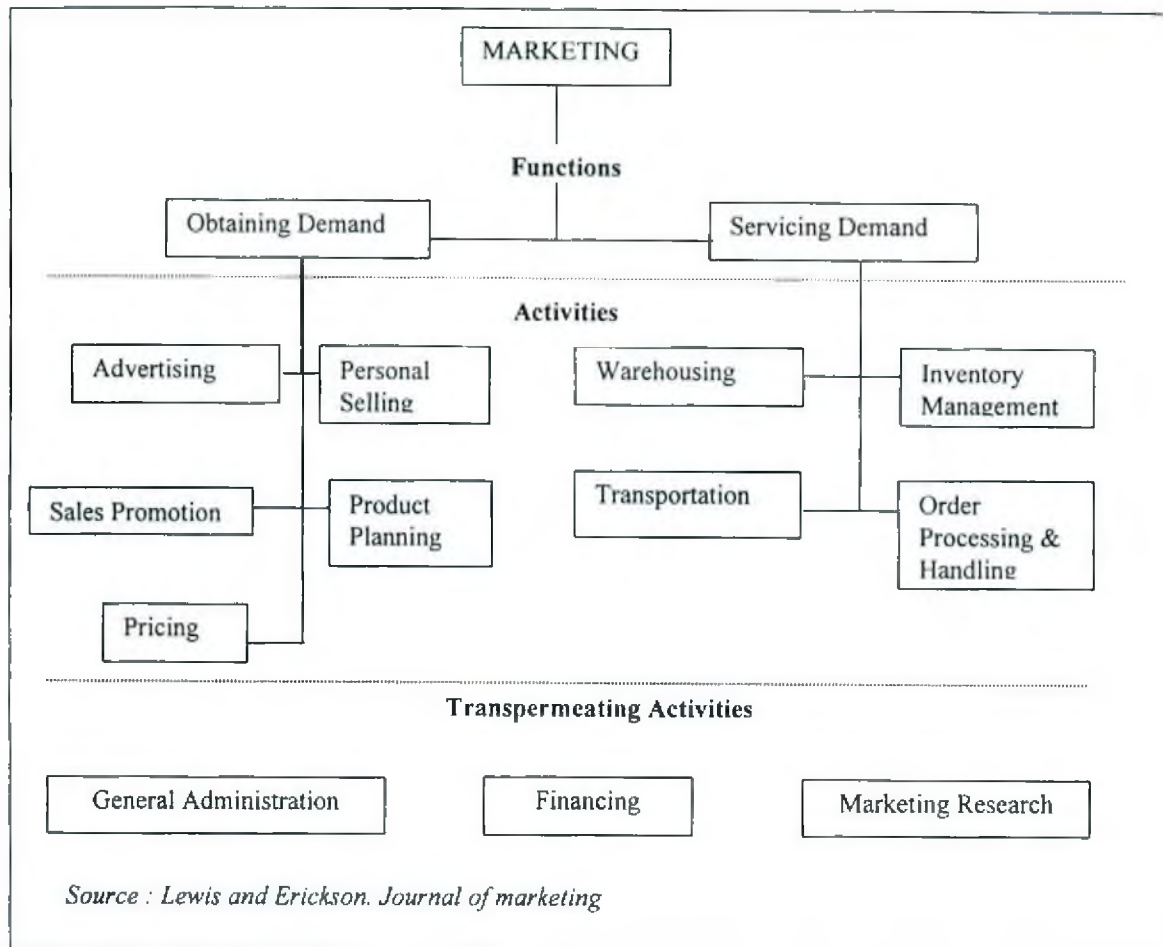


Figure 2. 1 : Marketing Functions and Activities

The Concept of Systems

Commons (1934) illustrated better than any other economist the functional aspect of economics. He brought in the idea of group behavior calling it "collective action." He also introduced the concept of "the going concern" in business. He brought a fresh understanding to the marketing process. He discussed the technology of the physical movement of goods. He

saw the change of title of ownership as the essence of exchange involving scarcity and coercion, controlled only by the bargaining limits inherent in the system. Systems, therefore seeks to interpret, "the connecting link between the individuals in a group, the organized behavior system to which they belong, and the maintenance of balance within the environment of the system itself" (Alderson 1957). A system thus does not have a set of desires and goals like the individual but is only a means of expressing and realizing the goals of the individuals who belong to the system. Therefore, systems operate in certain ways to indicate as if they had goals of their own.

Most of the systems which are pertinent to a theory of marketing are those which receive inputs and delivers outputs. Inputs and outputs both involve transactions between an organized behavior system and its environment. Inputs and outputs are highly differentiated and are determined both by environmental factors and by factors internal to the system itself. An organized behavior system, such as a business firm normally behaves as if survival were a goal of the system, the underlying objectives were those of the participants in the system. Their expectations of benefits from the system can only be realized if the system survives.

The marketing function plays a vital role in the dynamic process of matching goods and needs in organizing institutions and purports to serve this ultimate purpose. Marketing ideally connects separate production centers or operating systems in such a way as to optimize the outputs of the whole society. It is concerned with the external relations of individual units or organized behavior systems. As marketing is a function of organized behavior system, and

since, these systems are agencies through which a society exploits its environment, marketing theory is necessarily concerned with the structure and nature of organized behavior system. The internal structure and operation of a system has a vital bearing on such external functions as marketing (Alderson, 1944). Thus according to Alderson systems essentially depends on the nature of the economy and can be explained by:

1. *Systems in a primitive economy:* In a primitive economy, the system comprises of outputs of goods, which are to be utilized within the group. Inputs have a direct and measurable value under these circumstances. In a slightly more advanced economy some of the outputs will be exchanged for goods produced by another group. Technical skills and the availability of raw materials are the essentially determining factors.
2. *Systems in a modern economy:* In a modern system various types of inputs are used to produce a single output intended to earn revenue for the system. The input may be directly measured in the output, it could be consumed in the process of transformation, or be involved on a continuous basis throughout the life of the system.
3. *Systems in marketing:* In marketing something similar to what has been described earlier is found to take place, however, at times it is more difficult to observe and to trace because the changes are less tangible than in production. Another impediment in marketing is that any transaction involves inputs as the part of both buyer and seller or in case of social marketing the initiator and the recipient. That is costs and risks are involved on both sides of the transactions. Inputs of the marketing system may be both tangibles and intangibles. Tangible values produced by the marketing system are at times described as time, place, and

According to him these seems to be the two major issues. It is however quite evident that the suggestions are similar to that of other countries. Suggestion by others in this respect stresses upon modification of the following:

1. taxation policy,
2. welfare policy,
3. labor policy, and
4. criminal and justice policy.

Joseph (1987) forwards a piece of warning, pointing out that "the informal economy cannot and should not be conceptualized as a substitute for or complement of traditional market exchanges . . . the informal economy may develop if traditional economic system of distribution is strengthened".

Miller (1987) sets forth some guidelines to protect the interest of the informal economy. Some of the major aspects of his contention are:

1. Drive Out - this is true in case of the illegal operations such as smuggling and drug trafficking,
2. Pay Up - requires stringent policing, and may be reduced using some softer measures,

3. Improve - by introducing more societal upgrading projects and essential elements such as Medicare, wage, law, etc. and
4. Expand - by providing aid by the government or services by other agencies or community.

Another major issue which requires a serious thought and action for the survival of the third world informal sector in particular, is a direct consequence of the Uruguay Round (Peng 1990). The author outlines that the present restrictions or obligations imposed by the third world regarding establishment of foreign companies in the third world nations is being identified as "restraint on free trade. " In fact, the Trans-national Companies (TNCs) or the Multinational Companies (MNCs), are lobbying and gaining the total support from the G7 for opening up of new markets in the third world countries. This to a great extent will result in penetration by the TNCs & MNCs into the sectors and areas in which presently small and medium sized local firms (which are part of the informal sector) dominate. Though the actual impact of such an action is very difficult to ascertain at present, its impact on the employment sector is very obvious.

King (1990), while trying to unfold the biases and gaps hovering the informal sector, outlines retrospective and prospective accounts of issues and propositions on the informal sector. Some of these are:

1. there are tendency amongst the researchers as well as policy makers to consider informal sector as conceptually separate from the rural. This results in demarcation of a single entity which is un-warranted,
2. the involvement of informal activity as a part of household activity or as a second job is yet to be analyzed. This is true for both poor and rich families, rural, urban or both,
3. at the macro level a lack of monitoring with regard to process of "informalization of the economy" needs to be undertaken,
4. the impact of policies related to structural adjustments, taxation, etc. should be undertaken with due consideration to the informal economy,
5. the service sector in the informal economy needs to be studied more in-depth,
6. A net-work needs to be established to coordinate the inter-sectoral divisions, the inter-sectoral divisions within the agencies, ministries and within the research communities make it extremely difficult to analyze the interconnectedness of the informal sector, and
7. guidelines directed towards "informal sector as a separate and stable entity" just like its formal counterpart must be developed and new employment policy outlined.

Chickering & Salahdine (1991) outlined a set of recommendations intended for three different target groups- *government of developing countries, private voluntary organizations, and the aid agencies*. The major points as underlined are:

Government of Developing Countries should take the following steps or measures:

1. implement sound, outward oriented development policies to ensure further strengthening of the informal sector and initiate a shift from the informal to formal sector,
2. recognize and accept the informal sector,
3. eliminate or reorient institutions and policies that discriminate against the informal sector,
4. provide government facilities to the informal sector once it is recognized,
5. create institutions guaranteeing citizens' rights, including the right to comment on & criticize government rule making, & activate effective mechanism to review violations of rights,
6. encourage establishment of institutions that will facilitate economic, social, and political self-governance ensuring decentralization of power and authority, and
7. cause situations or institutions that will enhance the economic empowerment.

Private Voluntary Organizations should table the following measures:

1. encourage and organize itself to promote the interests of the informal sector,
2. change their view of the informal sector and should see its contribution to the economy rather than seeing these as parasites,

3. recognize the creative entrepreneurship and economic vitality of the informal sector,
4. develop training and facilitating activities to upgrade this economic sector, and
5. equip them to enable participation at macro level policy making as well as self development.

Aid Agencies should take the following measures:

1. promote self-governance by aiding PVO's that help the poor by measuring their success not only in terms of the number of poor people served, but also by the numbers who have become economically self-reliant or that seeking further aid.
2. organize the PVO's towards assisting the informal sector and then encourage the creation of more PVOs. The agencies should keep in mind that the PVOs are more closer to the recipients and the target population and thus understand the situation better, and
3. reduce the bureaucratic maze that characterizes many aid agency programs.

Lubell (1991), in his compilation for the Development Center Studies, identifies seven policy issues for the informal sector. The major aspect of these policy are:

Recommendations of the ILO Kenya Employment Mission Report : The 1972 ILO Kenya Employment Mission policy package consists of two main themes: reducing the risks and uncertainties to which informal sector operators, and establishing links between the formal and the informal sector. The direction was more towards the policy of the governments for being more lenient to this sector.

The PREALC Policy Position: The ILO's Regional Employment Program for Latin America and the Caribbean (PREALC) devoted considerable effort towards the formulation of policy recommendations for informal sector under the supervision of Victor Tokman. The policies were directed towards:

1. Augment production by increased access to the factors of production raw materials, finance, etc. and increase technical efficiency,
2. Reduce marketing costs by establishing distribution networks and search for avenues to stimulate demand,
3. Pursue or influence the government to subsidize the creation of infrastructure (markets and work place including export markets) for informal entrepreneurs,
4. Make changes or modifications to legal and institutional framework where necessary. With regard to taxes, Tokman pointed out that "given the low levels of income and profits of informal sector participants, direct taxes are usually not relevant, however, they are to great extent affected by the indirect taxes such as the Value Added Tax". With regard to the labor policies it was evident that they should require changes.

In a later work Tokman (1990) warned of the risk factors involved in designing policy for the informal sector. The risk factors outlined include:

1. temptation to find "the missing piece" of the policy puzzle without recognizing the importance of other factors,
2. the failure to consider the heterogeneity of the informal sector and of the interests of different groups within it, and
3. ignoring the significance of different forms of production (e. g. the household work place which facilitates family labor participation but which also makes it possible to combine welfare with productive policies).

The policy makers' task should be to identify the relevant policy instruments and levels of intervention in the light of these risk factors identified above.

Hernando de Soto's Invisible Revolution: The De Soto theory is based on the principle that " to remove government restrictions on freedom of entry of micro-enterprises into productive activity and to abolish unnecessary licensing requirements and absurd bureaucratic approval procedures, government should to the greatest extent possible remove itself from the market place and leave informal sector participants free to use their energies to create goods and services the economy demands. " De Soto further stresses on more pragmatic property laws, reliable transactions and secure activities, and for the avoidance of un-warranted legal practices.

The Macro-Economic Policy Environment: The differing effects of macroeconomic policies on large enterprises and on small and micro enterprises are not the same due to policy deviation between the sectors. This essentially looks at the aspects where the level of protection and subsidies for each of the sectors as outlined in the government policies is not equal. The government of the developing economies in particular are getting more concerned with aspects associated with tax evasion by the informal enterprises, particularly in cases where they are working under sub-contracting. The concern is based on the fact that the units are now increasing production, generating income, giving employment and at the same time avoiding taxes and violating labor regulations. It is therefore apparent that laws directed towards the safety of the micro-enterprises and also safeguarding the interest of the government needs to be designed.

Micro Level Policy Interventions: Most of the aid agencies in recent years have directed their attention to specific micro industries. They are providing various types of inputs including credit, training, and marketing. However, the NGOs keep themselves limited to the target groups rather than helping and promoting the vast majority who are left unattended. It is therefore essential to develop a scheme which will include the unattended groups.

Not So Benign Neglect Africa and Asia: Government policy towards the informal sector has been focused more on controlling the micro-enterprises from being too prominent in the streets. Thus, the mere stopping of the ultimate selling activity

results in a great degree of unfairness towards this informal retailing. The erection of market place and getting taxes is the action the governments usually play. This as it stands, does not in any way help either the government or the traders. A policy to allow informal retailing under a different law therefore need to be designed.

Benign Neglect The OECD Countries and Eastern Europe: It is evident that the informal economy or the grey economy is doing good both in Europe and the U. S. The fact that they are at least ensuring employment has because evident from the government reports. In Eastern Europe, the black market activity of yesterday is in fact transforming into petty capitalism. It is therefore evident that even in the more developed world the movement of informal sector is taking a positive turn and calling for more attention.

Thus, the literature survey clearly indicates that the future implication of the informal sector is of utmost importance both for the public planners as well as for academics. In fact, its importance in the overall sustained growth of an economy cannot be ignored any longer.

CHAPTER IV: THE FORMAL INFORMAL RELATIONSHIP

It is apparent that the informal sector is different from the formal sector and at the same time it plays an important role in the economy. Consequently it is logical to understand the relationship between these two sectors, specially when the future implication of the sector is very important. This chapter makes an elaborate presentation of the literature on informal-formal relationship.

Relationship Between Formal and Informal Sector

Sarhi (1983) considers the informal sector as an extension of the formal sector. In his study he tries to show the linkages of the informal sector with various sections of the formal sector, such as, production linkages and marketing linkages. The author considers that in several situations the two work together for greater benefit. Two distinct types of marketing linkage is outlined:

1. A large number of commodities produced in the informal sector are marketed by the formal sector at a considerable profit for the later, while the wages in the formal are at subsistence, and

2. It is also used for marketing of goods manufactured in the formal sector at cost, which is much lower than what it is in the formal sector.

Papola (1979) in his study, which is restricted to metal engineering, gives a similar view, stating that, the dependency of informal sector over its formal sector counterpart, specifically in the case of forward and backward linkages is very prominent. He contends that in the absence of such linkage the existence of informal sector may be difficult. Salahdine (1991) gives a different viewpoint. He concludes that the success of the informal sector to a great extent indicates the failure of the formal sector and thus a definite investigation is required to identify the exact linkage.

Tokman (1978) analyzing the relationship between the informal sector with that of formal sector does not see the relationship between the two as either benign or of an exploiting nature. He contends that the relationship is really that of "heterogeneous subordination". MacEwen (1979), differing with the Tokmans concept, contends that there is no clear cut distinction between formal and informal economy and compares it with wage labor and self-employment. The author stresses that there are a number of intermediate forms between the two "pure" states which is neither clearly evident nor clearly defined. Huq and Sultan (1991) giving similar opinion in the case of Bangladesh stresses that the same enterprise may, at various points in time, shift from positions to positions. They further argue that "What for analytical purposes, is conceptualized as a dichotomy between informal and formal is, in reality, a continuity, not only in static but also in dynamic terms." Amin (1987) giving similar results from Bangladesh

indicates a definite movement within the informal sector. For example, some informal employees shift to high paid jobs in the formal sector; some of them become owner entrepreneurs; and a part of self-employment categories become employer having a formal status as owner manager.

Hoyman (1987) in his study indicates that since women are not only doing better in the informal economy but also get better returns compared to what they could get in the formal sector. This results in a migration of the female work force from the formal to the informal economy.

The Linkage Theory

Ross and Usher (1986) in their book titled "From The Roots Up: Economic Development as if Community Mattered" have tried to underline the differences between the formal and informal sector and developing a profile of the informal sector. The exposition in the book shows that the two economies are though apparently distinct and separate, at the same time have linkages between them, which are not so distinct to draw a clear line. Figure 4. 1 below describes the profile of an economy, as depicted by Ross & Usher.

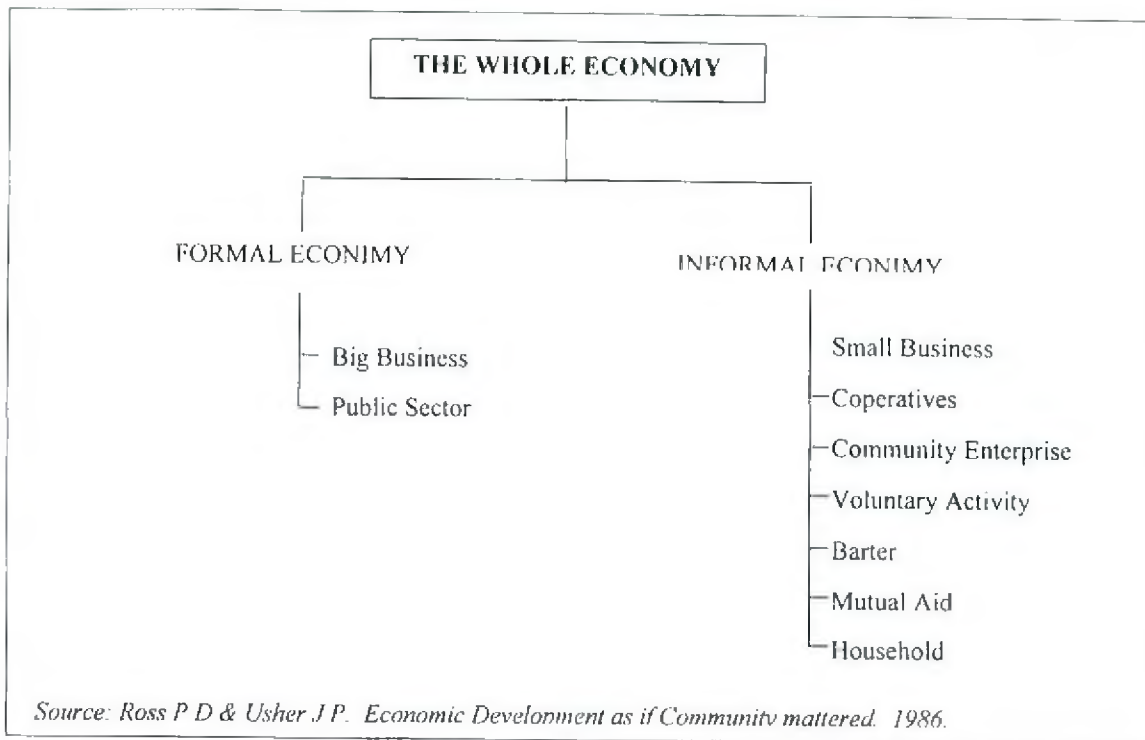


Figure 4. 1: The Profile of an Economy

Further differences outlined by the author include first of all the definitional elements which suggest that the informal economy is more democratic as it is more associated with the activities of the society which are closely knitted and at the same time considers the aspect of social accounting. On the other hand, the formal sector is based on private profit making venture and thus does not take into consideration the social accounting and is biased towards those who have the power to make or influence profit making. As such the formal sector can not be strictly considered to be democratic in nature. Considering the above two scales of operations, viz. operating rationale (extending from commercial to extremely social) and the scale of operation (small scale extreme represented by single-person productivity and the large scale extreme represented by the large corporation), a two dimensional representation has been outlined in Figure 4. 2.

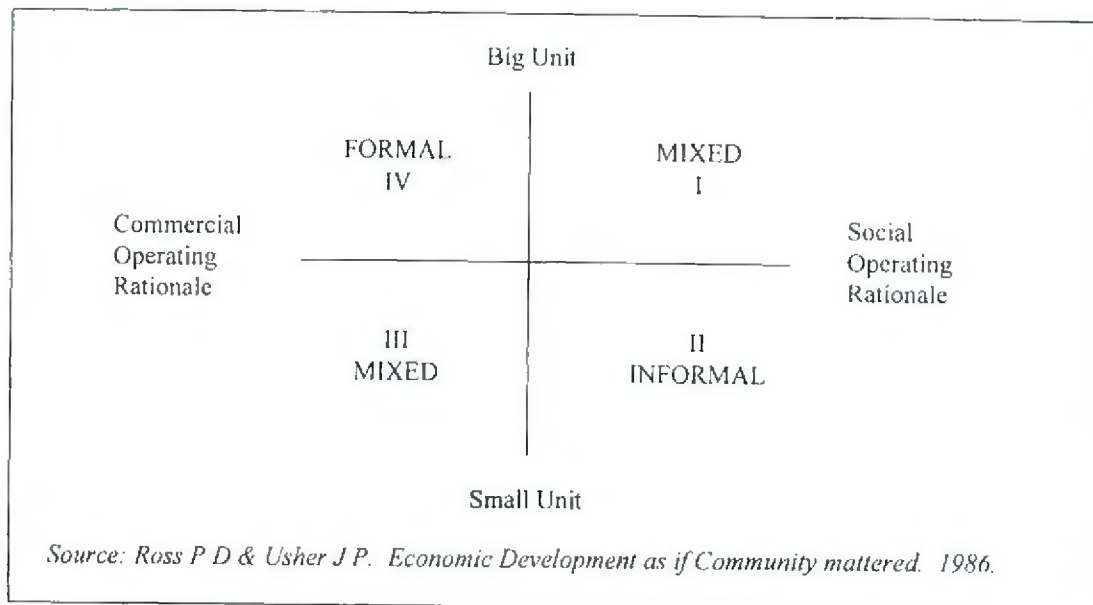
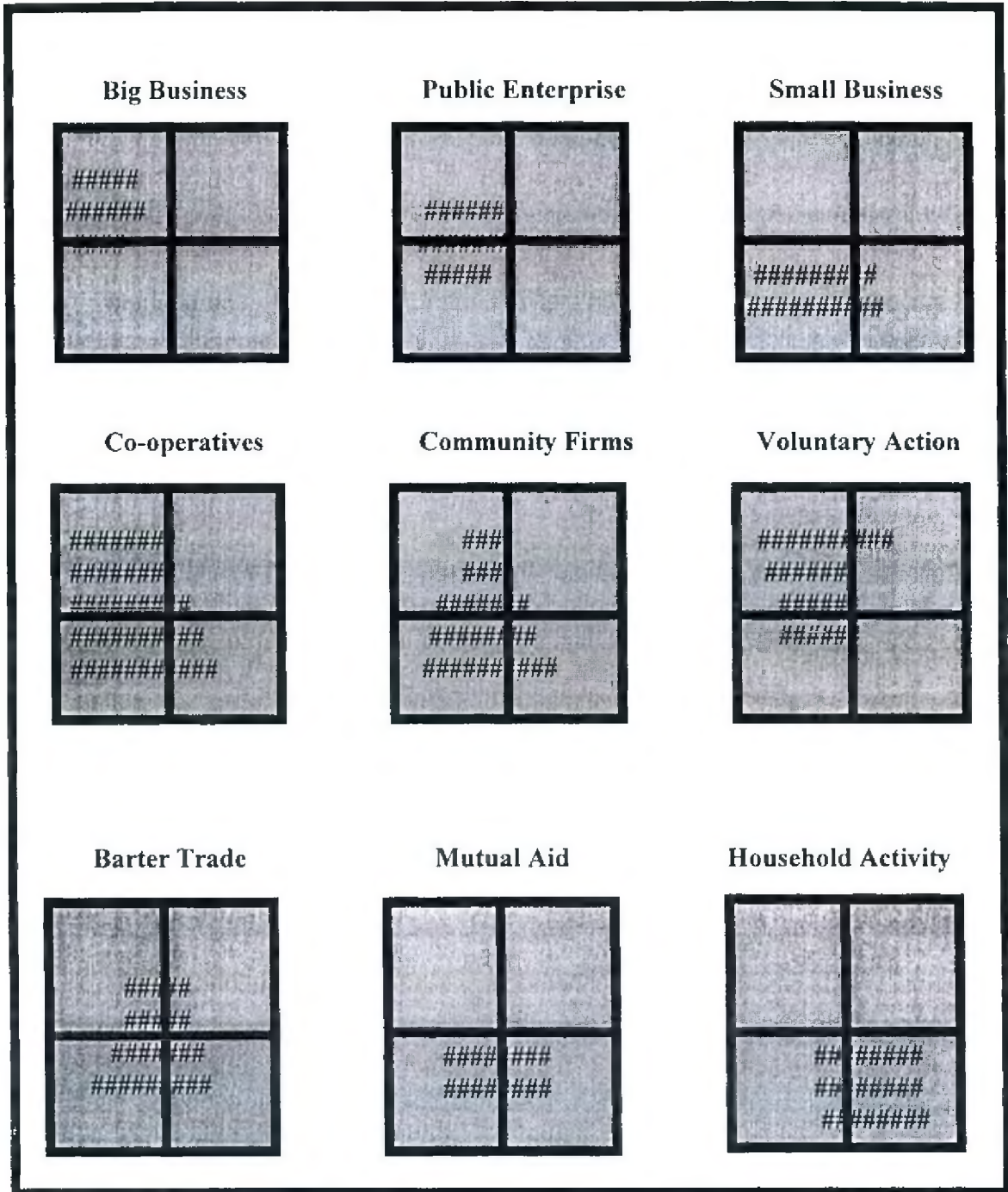


Figure 4. 2: The Formal Informal Relationship

The various economic activities are expected to give a scattering of the nature as illustrated in Figure 4. 3. The individual activities envisage that it is extremely difficult to clearly isolate the formal from the informal. Moreover, one is dependent on the other; dependence being a function of the type of economic activity in question.

The authors further show that a general shift has taken place from the informal to the formal economic activities resulting in a more dominant feature of the formal economy. In assessing the work, it is apparent that actual distinction between informal and formal in terms of the types of activities is perhaps not possible in most cases. At the same time it cannot be ignored, that these two sectors work side-by-side in or many. However, the type relationship, i. e. whether of competing, complementary, supplementary, or symbiotic in nature cannot be established from the above. It is evident that the types of relationship will be specific to certain conditions of economy and to the nature of activity.



Source: Ross P D & Usher J P. *Economic Development as if Community mattered.* 1986.

Figure 4.3 Scattering from Various Economic Activities

Based on Ross and Usher and earlier studies on the informal sector, it is possible to surmise that the definitional elements suggest that an informal economy as more democratic, closely associated with the activities of the society which are intimately knitted, and more inclined towards the perspective of social accounting. Conversely, the formal sector is primarily based on private profit making ventures and therefore in most cases does not take into consideration the aspect of social accounting and is biased towards those who have the power to make or influence profit making. Considering the above two scales of operations, viz. profit rationale (extending from highly profit oriented to extremely societal oriented) and the mode of managing operation (one man management represented by total democracy and the large scale extreme represented by the formal management structure), a two dimensional representation can be justified (see Figure 4. 4). The model can, however, only depict the extent of informality or formality and provide insight into the expanse relationship between the two sectors. It should however be clear that the model does not in any way consider the two sectors as totally different. It only shows the stretch but not the overlaps.

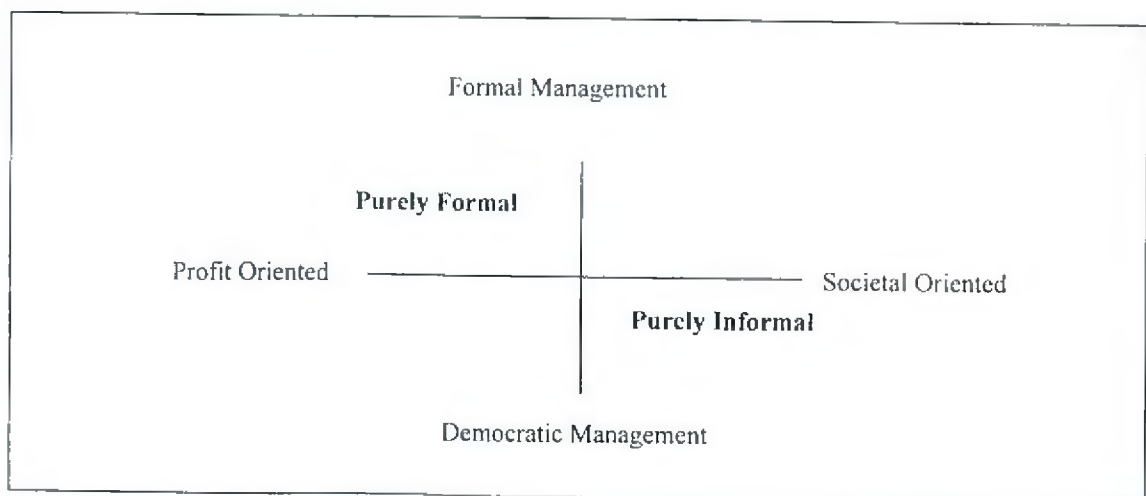


Figure 4. 4: Linking Formal and Informal Sector through Profit/Social Orientation and Management Practice

Critical Evaluation of the Linkage Theory

While evaluating the informal/formal dualism, Bromley (1978), in his study states ". . . it is worth remembering that all classificatory schemes can be considered arbitrary, subjective, inflexible, and/or narrowly defined for a specific purpose." He outlines nine deficiencies of the informal/formal classification as depicted in the literature. The deficiencies outlined by the another are listed below:

1. It is crude to classify all the economic activities into two simple classes. The use of a continuum, depicting movement could have been more logical,
2. no clear-cut guideline exists to classify activities, which have some of the characteristics of both the formal and informal sectors. Some sort of multivariate analytical framework can be used to actually classify the two sectors of the economy,
3. most of the researchers assume that the two sectors are distinctly different, whereas, it could be true that they are in a continuous state of interaction and overlapping,
4. at times a single policy guideline to meet the problems of the informal sector is prescribed, while negating the diverse activities embedded in the sector which probably would require a number of different solutions,
5. a tendency of considering the informal sector as urban without taking into consideration the large part of rural informal economy,
6. most of the writings fail to identify the special factors of the economy which may be associated with the informal sector and this requires to be segregated,

7. the informal sector at times is defined in terms of having only a present but no future. The aspect of its presence in the government statistics or being recognized by the government agencies will automatically take away the informal essence making it a part of the formal sector,
8. the linking of informal sector to household activities may not be necessarily correct since the household may comprise of individuals involved in the informal, formal, or both the sectors, and
9. the urban informal sector and the urban poor sector at times are considered to be synonymous. But, all informal entrepreneurs are not poor and all poor people do not engage in the informal economy.

Sanderatne (1991) giving an illustration of Srilanka states that the relationship between the formal and informal sector is symbiotic. They coexist side by side and are not competitive, they complement rather than supplant; they are interdependent and may also be vertically integrated as in the case of sub-contracting. At the same time the markets are also different. It is also evident in the Srilankan context that informal enterprises, which started small, have the ability to become big and may even transform into the formal character. This happens when the cost of conversion is less than the benefits. However, at times the informal enterprise may elect to stay informal even though the benefits are more directed towards formalizing. This mainly takes place when a more complex organization is beyond the personal managerial control and capability of the informal entrepreneur, if the financial resources are unavailable, or if the risks are too daunting.

CHAPTER V: THE INFORMAL SECTOR IN BANGLADESH

Introduction

Bangladesh with a population of about 110 million, and a rural urban ratio of 80:20, is predominantly dependent on agriculture. Agriculture accounts for about 80 percent of the total population and contributes to about 35 percent of Gross Domestic Product (GDP) at current prices. Agriculture also accounts for approximately 65 percent of the total employed labor force. It is now widely recognized that a substantial reform in the agriculture sector is essential to ensure future growth of this sector. It must be kept in mind that while land-to-individual ratio is decreasing every day with an increase in population, the agricultural productivity has not shown a significant increase. Table 5. 1. contains data on yield on major agriculture crops for ten years. It is also evident that with the decline in the jute sector the agricultural sector had to face serious economic hardship. The growth in the garments sector was another factor responsible for the shift of labor force from the rural based agriculture to the urban based garment industries. This is particularly true in the case of women work force.

Table 5. 1: Yield Per Acre of Major Agricultural Crops (1981-91)

Year	Rice (lbs.)	Jute (lbs.)	S. Cane (m.ton)	Tea (lbs.)	Pulse(lbs.)	O. Seed (m.ton)	Tobacco (m.ton)
1981-82	1201	1260	18	804	591	751	828
1983-84	1227	1452	17	845	613	686	826
1985-86	1290	1324	17	866	623	708	775
1987-88	1382	1483	17	781	652	732	786
1989-90	1520	1386	16	736	610	713	814
1990-91	1526	1473	16	857	642	699	797

Source : *Statistical Yearbook of Bangladesh*

A study undertaken by Clay and Khan (1977) indicates that under the prevailing economic structure of the country it is very difficult to improve the agricultural sector without increased investment. In addition, return from the agricultural sector and the risks involved, particularly due to natural disasters, the policy makers do not feel encouraged in recommending investment in this sector. It is therefore imperative that more stress be given in the manufacturing sector.

The manufacturing sector which at present contributes to about 12 percent of the targeted GDP employs about 6 percent of the labor force (Statistical Year Book of Bangladesh, 1994-95). On the other hand, it has neither been given due importance nor has it been able to show any significant growth. This is primarily due to macro-economic policy, resulting in fostering of imports rather than protecting the manufacturing sector.

According to the 1990 Census of Manufacturing Industries (CMI) compiled by the Bangladesh Bureau of Statistics (BBS) the medium sized units accounted for more than 30 percent of the value added out of the total for both large and medium combined. In addition the large and small scale industries showed a sectoral share of GDP (at current prices) of 5.46 percent and 3.68 percent respectively.

Small and Cottage Industries

While the number of manufacturing industries reported in Census of 1988-89 stood at 23,752; Rahman (1979) reported that there were 40,000 small and 355,692 cottage industries in the country. Another report by Engineering Division of Bangladesh Small and Cottage Industries (1987) stated that in 1985 there were 28,304 small scale industries in Bangladesh. An report by Kamal (1985) states, "Small and Cottage Industries provide direct employment to 2.00 million people, which is about 78 percent of the total industrial labor force, and accounts for over 75 percent of the contribution of industrial sector to the total output." In their study, Ahmad et al (1988), observed that the figures quoted in the official statistics grossly under-estimated the importance of small and cottage industries in terms of both contribution to GDP and absorption of labor.

Although the exact number of industries under the informal sector is not available, according to Bangladesh Small and Cottage Industries Corporation (BSCIC) the total number of

small scale enterprises in Dhaka Division as of June 1992 stood at 2,240 employing 22,626 persons. Table 5. 2 contains the detailed data. It however should be noted that the list is not comprehensive, as it incorporates only those units that are registered with BSCIC. It is estimated that the number of unregistered units are far greater. Units outside the Dhaka Division have not been accounted for. A large majority of units under the BSCIC are in reality non operative and do not exist. This has happen mostly in the cases where bank loan was involved and the entrepreneurs failed to repay the loans resulting in bankruptcy of the firms. However, the available figures are indicative of the size and distribution of the sectoral units within the economy.

Table 5. 2: Details of Industries Registered with BSCIC (Dhaka Division), 1992.

Type of Industry	Number	Production Capacity (in mil Tk)	Employment (number)
1. Food & Allied	958	3769	8131
2. Textile	158	883	3321
3. Forest	235	271	1841
4. Paper & Allied	73	299	729
5. Tannery, Leather & Rubber	23	131	401
6. Pharmaceutical & Allied	92	400	1208
7. Glass, Ceramic	1	1	34
8. Engineering	682	2144	6814
9. Miscellaneous	18	94	147
TOTAL	2240	7992	22626

Source : Report on Small Industries Extension, BSCIC, 1992.

The sub-sector allocation for large, medium, small, and cottage industries under the private sector investment program during fourth five-year plan (1990-95) is given in Table 5. 3.

Table 5. 3: Sub-sector Wise Allocation for Large & Medium Scale and Small Cottage Industries Under the Private Sector Investment Program During Fourth Five Year Plan, 1990-95 (in percentage)

Sub-Sector/Group	Large & Medium	Small	Cottage	Total
1. Food & Allied	6.00	20.00	22.00	10.40
2. Textile Prod.	22.00	15.00	16.00	19.84
3. Jute & Allied	1.00	0.77	1.50	0.94
4. Forest & Agro.	3.00	4.00	16.00	3.50
5. Paper Printing & Pack	4.00	5.00	3.00	4.31
6. Leather & Rubber	5.00	4.00	7.50	4.79
7. Chem. Pharma etc.	21.00	16.00	4.50	19.25
8. Glass Ceramics etc.	8.00	1.24	4.50	5.94
9. Engineering & Electr	17.00	25.00	22.00	19.45
10. Service	8.00	2.50	0.00	6.19
11. Miscellaneous	5.00	6.50	3.00	5.39
TOTAL	100.00	100.00	100.00	100.00

Source : Bangladesh Bureau of Statistics

The World Bank Country Report of 1987 states, ". . . the urban informal sector remains the fastest growing part of the Bangladesh economy. Regardless of policies followed, micro-enterprises continue to multiply, spurred by continued migration to urban areas coupled with the necessary resourcefulness of the new arrivals. In 1985, there were about 28,000 small scale enterprises, employing about 380,000 persons, and about 370,000 cottage industries, employing about one million. In addition, there were 320,000 hand looms, producing nearly 60 percent of

the cloth requirement of the country and giving direct employment to over 1.2 million people. Nearly one-half of total industrial production in Bangladesh comes from these units and they account for two-thirds of total urban employment".

Growth of Informal Sector

One can conclude from the studies cited earlier that the actual number of units in the informal sector and the extent of employment provided by this sector is not yet clear. Although the total number of units presently working is quite significant, there is however no doubt that the overall economic contribution of the sector is very significant.

While assessing the overall growth of informal sector in Bangladesh, it was observed that migration from the rural to the urban centers was one of the major factors contributing to the growth of the informal economy in and around the urban centers. The number of establishments in the food sector alone has grown from 137 in 1976-77 to 151 during 1982-83. The employment in the same period has grown from 6,009 to 6,887. This is to a great extent owing to under-employment in the agricultural sector, which resulted in increased migration of population from, rural to the urban centers. According to the Statistical Year Book of Bangladesh (1994-5), the average percentage of urbanization as of 1981 was 15.18 percent. The growth of urban population along with life time net migrants for the period 1961 to 1981 in some of the major urban centers of the country is presented in the Table 5.4.

Table 5. 4: Growth of Urban Population and Life Time Net Migrants in some of the Major Urban Centers (1961 - 1981).

Greater District	1961		1974		1981	
	Growth	Migrant	Growth	Migrant	Growth	Migrant
	(%)	('000)	(%)	('000)	(%)	('000)
Chittagong	12.50	+37	20.97	+53	31.14	+209
Dhaka	14.79	+50	29.56	+579	38.52	+1142
Khulna	7.06	+74	14.62	+227	22.41	+285
Rajshahi	4.27	+67	5.79	+61	10.34	+26

Source : Bangladesh Bureau of Statistics

Amin (1987) outlines some of the major causes of migrants joining the informal sector as:

1. lack of formal jobs and high level of unemployment, and
2. very low land/man ratio forcing agricultural labors migrating to urban sectors and joining non-formal sector as they are left with no other alternative.

CHAPTER VI: CONCEPTUALIZING THE INFORMAL SECTOR MARKETING

Literature review suggests that the informal sector is one of the major economic growth centers in a country contributing to both GDP and employment opportunity. The increasing influx of the rural population in the urban centers has resulted in an un-controlled growth of this sector in and around the urban centers, which constitute the major market for informal sector. But, the business practices prevailing in this sector is relatively less known compared to the formal sector. It has therefore become necessary to undertake a study for better comprehension of the business practices prevalent in this sector.

Following the literature study, a set of conclusions may be drawn about the informal economy:

First, the contribution of the informal sector to the economy, both in positive and negative terms is significant and thus cannot be neglected,

Second, as an informal sector is to a great extent two-dimensional (positive & negative), it is essential to identify the two different categories measuring the cause and effect relationship,

Third, for measuring the cause and effect relationship, the actual identification of the units requires formulation of a definition which will essentially work as a bench mark, and

Fourth, under the conditions outlined in this study, it is difficult to trace the informal units due to lack of data and mobility of the informal units.

Definitional Framework for the Informal Sector

With an increased complexity in the macro-economy of nations, participation of the informal economy is on the rise throughout the world. It has been observed that the extent and nature of informal venture vary with the type and size of the economy. Given the above scenario, it is evident that the informal sector has become an important area for both researchers and public planners.

The importance of a definition with an intention to give a direction is essential for any research. However, there is no single standard definition of *Informal Economy*. It is clear from the literature that an informal economy is yet to be adequately defined in terms of some standard quantitative or qualitative criteria. Moreover, a single definition will not be appropriate throughout the economy (Bromley, 1978; Guerguil, 1989; Raymond, 1987; Ferman et. al 1987, Paquet, 1988).

It is observed that most of the definitions are merely working ones, which are designed to suit the situation and the type of study. As most of the research on the informal sector is situation specific, a detailed study of literature on the informal and related topics will help evaluate, understand, and envisage a definition for this part of the economy.

To arrive at an acceptable definition, it is therefore essential to "dig deep" into the literature on informal and the related sector, such as underground economy, micro industries, etc.

It involves primarily, to compile the results of different researchers, and thereby to generalize the findings of all such studies. It has been assumed that the compiled work to a great extent will outline both the depth and the width of informality, and at the same time be representative of the global economy. As a part of concept building this researcher compiled aspects related to the definition and characteristics of the informal sector from more than 100 research work of various nature and directed towards diverse economies (see compiled definition in Appendix III).

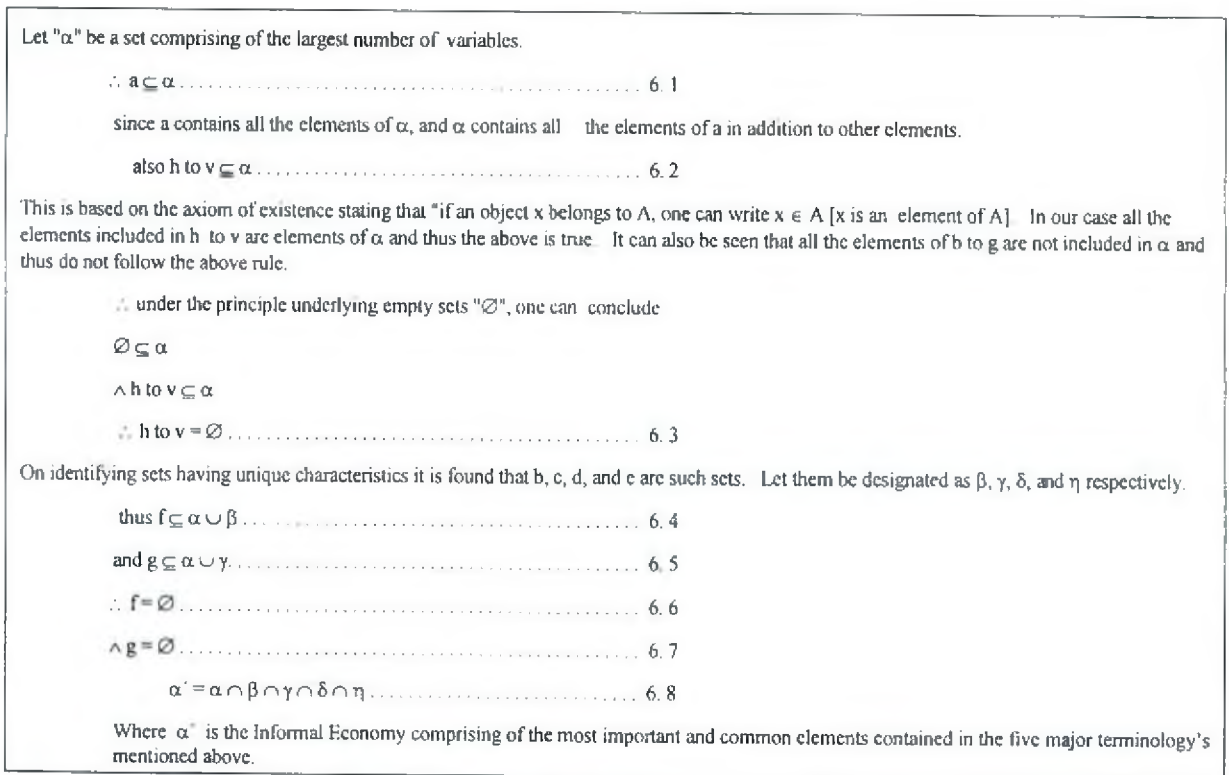
The secondary surveys catalogued twenty-eight different terminologies associated with the term 'informal'. Out of these, twenty-two terminologies were stated in the literatures survey by this another while only reference to the remaining definitions were obtained (see detail in Appendix IV). In addition, fifty-two variables characterizing informality were identified (see the variables on Appendix V).

Findings of the literature survey indicate that most of the definitions or characterizations are based on the aspects of legality, investment pattern, number of workers engaged, financial and physical support, recognition by government, economic status, etc. The exact status or combinations characterizing the actual realm of informality remains to be further examined. In retrospect, it may be stated that the informal sector comprises many facets, not all of which have been included in any one particular definition.

Dealing with Terminology

While dealing with the problems associated with the terminology, it was observed that the set theory (Leung and Chen, 1970) could be used to help arrive at a rational solution to the dilemma created by the uncontrolled showering of terms.

Based on the theme of the definitions, clustering of the characteristics of each term was identified (see the terminology in Appendix VI). The definitional framework extracted from Anwar, et.al. (1996) is given in Figure 6. 1. The model contained in Figure 6. 1 embodies all relevant elemental characteristics of informal economy.



Source : Anwar S F et. al. *Journal of Small Business and Entrepreneurship*.

Figure 6. 1: Model Defining the Informal sector.

The model clearly indicates that the informal economy does not include underground, parallel, counter, and grey economies since they are comprised of at least one element, which is not included in the informal economy. But, the rest of the terminologies can be ignored based on the axioms of extension and inclusion.

To identify the major characteristics of the informal economy, the axioms of pairing can be used which recognize a set looking at commonalties existing between two or more sets. Thus, based on the axiom in 6. 7 the relationship existing between informal, underground, counter, and grey economies gives the result produced in axiom 6. 8.

Elements of Definition

While identifying the key elements associated with the informal economy, all of the variables accounted for in Appendix V were rated based on the frequency of occurrence of the variables, and the significance was measured by calculating the standard deviation of the mean. This resulted in identification of the key or major elements vis-a-vis the minor elements, which are distinguished as components of informal and related economies (see details in Appendix VIII).

The results as given in the Appendix VIII indicate that the major or the key features of the informal economy according to its order of importance are that it is:

1. associated with tax evasion
2. not mentioned in the official statistics
3. outside the realm of formal economy
4. illegal in status
5. a major sector of the employment

Thus, based on the features outlined above, the informal sector can be defined as:

"That part of the economy which is outside the realm of the formal economy due to illegalities associated with tax evasion and for being absent from the official statistics. However, it has a major contribution in terms of employment generation."

It should be noted that this definition is based on the major elements, which essentially characterize the informal economy. The minor elements, on the other hand, are more situation-specific, illustrating a particular domain or facet within the framework of the informal economy.

Management Framework of the Informal Sector

Based on the evaluation of the variables identified in the research, an association with some specific functional activities was found to exist. It was observed that as the definitions in most cases were directed toward a specific economy or situation, it assisted in identifying a characteristic directed towards a specific function. Moreover, due to the extensive nature of the study, it was possible to list myriad sets of characteristics associated with one or more management functions. Thus, the conceptual management framework of the informal economy was developed by looking at the key external environmental features of the sector, and some aspects relating to the management systems and functions.

The Environmental Aspects

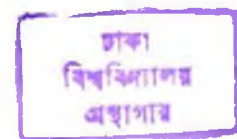
The major factors characterizing the environment of the informal economy, as outlined in the various definitions, include the:

1. macro economic status,
2. legal aspects
3. social aspects, and
4. technological features.

The Macroeconomic Status: Results indicate that the informal economy is a temporary or an intermediate economic activity, which is distinctly different from the formal economy, although a certain degree of overlap may exist. The extent of overlap depends on the level of legality and the competition from the formal sector. They prevail both in the urban and the rural regions, depending on the availability of employment and of resources. It is primarily considered to be an activity associated with the poor or having to do with marginal income. However, it is also prevalent in the form of voluntary activity, and at times with multi-million dollar trade, where the profits could be super-normal, as observed in the case of black marketing, smuggling, etc. Thus, one can infer that the informal economy is extremely broad-based and has an inclination towards "laissez-faire" economy.

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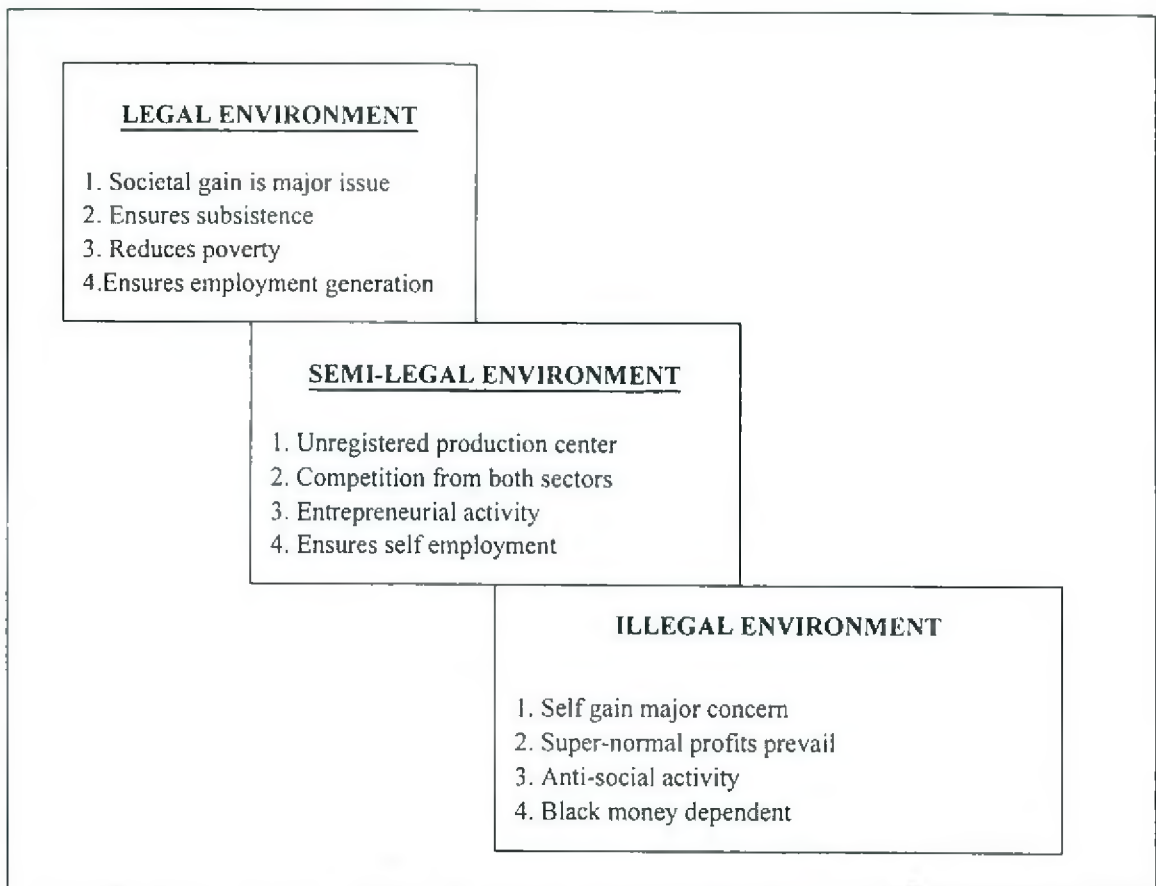
The Legal Aspects: It is considered to be an illegal activity in general, although at times the aspect of legality, while considering the social benefits it ensures, overrides the perspective of illegality. Examples of such activities include cottage and micro industries. The major reasons associated with illegality originate from tax evasion, absence from official records, and absence of control by the government agencies. The degree of illegality on the other hand varies with the type of activity. For example, in situations such as religious missions, which are voluntary in nature, it is considered to be legal. Manufacturing or trading of legal items, though associated with tax evasion, also contributes in the form of employment generation or subsistence, and thus are considered to be semi-legal. Activities associated with drug trafficking, black marketing, etc. constitute the extremes of illegality.



The Social Aspects: The survival of the informal economy is dependent upon social influence to a great extent. The influence could either be associated with the principle of self-gain, or that of ultimate gain for society. It is evident that informal economy may be considered to have both the societal as well as anti-societal elements based on the type of activity it is engaged in. There is no doubt that the informal sector has in many situations contributed a great deal in providing employment to millions, thus ensuring survival and functioning of governments which otherwise might have collapsed.

The Technological Features. In the manufacturing sector the activities vary from households to small business units which are dependent exclusively on a low technology base. Most of the technology is either developed based on local resources or are adapted from outdated technology. Dependency is more on labor rather than power. In the non-manufacturing sector, however, the extent of innovation is much higher, resulting in high efficiency levels, for example, flea markets, informal personal selling, etc.

Thus, one can conclude that the informal economy has two major components, the legal or the semi-legal or the totally illegal. The nature of the environment in the two are different and could be categorized into two distinct clusters, one having a legal label, due to the social benefits it ensures, and the other, totally illegal due to its antisocial characteristics, as shown in Figure 6. 2.



Source : Anwar S F et. al. *Journal of Small Business & Entrepreneurship*

Figure 6. 2: Categorizing the Macro Environment of the Informal Economy.

Management Style and Status

The informal economy is comprised exclusively of private entrepreneurs. There are no formalized regulations or practices prevalent in the overall management of operations. The system is characterized by a more personalized approach resulting in a cooperative management system. This essentially results in higher levels of trust and dependency among the employees. Usually, the owner is the manager. The management philosophy is directed towards the

community, which usually consists of the personnel, directly or indirectly associated with the enterprise in question. Control, however, is centered around the owner.

Management Functions

Four broad categories of management functions have been identified; production, marketing, finance, and human resources.

Production: The size of the production unit is one of key factors associated with the classification of the informal sector. The production process is characterized by a low or poor technological base. The raw materials mostly comprise of those available from the local natural resources. In most of the case, it is comprised of short production cycles, limited production capability, low technological base that in turn results in of poor quality. However, the hand-made crafts are exceptions; most of there are exclusive items due to their artistic features.

Marketing: Probably due to the size of operation or production capability, it characteristically follows "niche" marketing strategy. However, this may also be due to a high level of competition from both the informal and formal competitors, or significant barriers to entry. Another reason favoring niche marketing may be contributed to the nature of the products, especially in the case of 'illegal products'. The distribution system is characterized by the presence of both formal or traditional channels, as well as informal or outmoded channels. A selection of channels is basically dependent upon quantity of sales and legality of items.

No standardized pricing policy is followed. Pricing of goods or services is pragmatic. Transactions are done mostly in cash or in the form of barter trade. This is essentially to avoid any sort of documentation. Barter trade is mostly found in situations where household manufacturing is prevalent. Exchange of goods is dependent upon the area of specialization. Due to lack of resource and smaller size of operations, research and development activities are absent. However, product innovation is prevalent, which is indicative of individuals' creative or entrepreneurial capability.

Financial: The entire operation is based on limited capital. This is not only due to lack of capital, but also due to the fact that it is dependent on short production cycles. In the case of illegal trade, the situation is different where the transactions involve larger amount. As far as external financial support is concerned, it is totally absent. The accounting practices are merely to do with internal accounts in crude form and thus are not reported in the national accounting.

Human Resources: The size of the labor force is one of the major characteristics used for classification of the informal sector. The labor force involved in the informal sector often has a dual employment status. It is therefore observed that the informal sector is considered to be an activity not only at a subsistence level, but also it is to strengthen or maximize family income. As most of the activities are outside the boundary of government regulations, the labor force is generally exploited, and standardized labor policies are not followed. Labor productivity is higher compared to their formal counterparts, this is perhaps due to a lack of job security.

The conceptual framework of the overall management functions is given in Figure 6. 3.

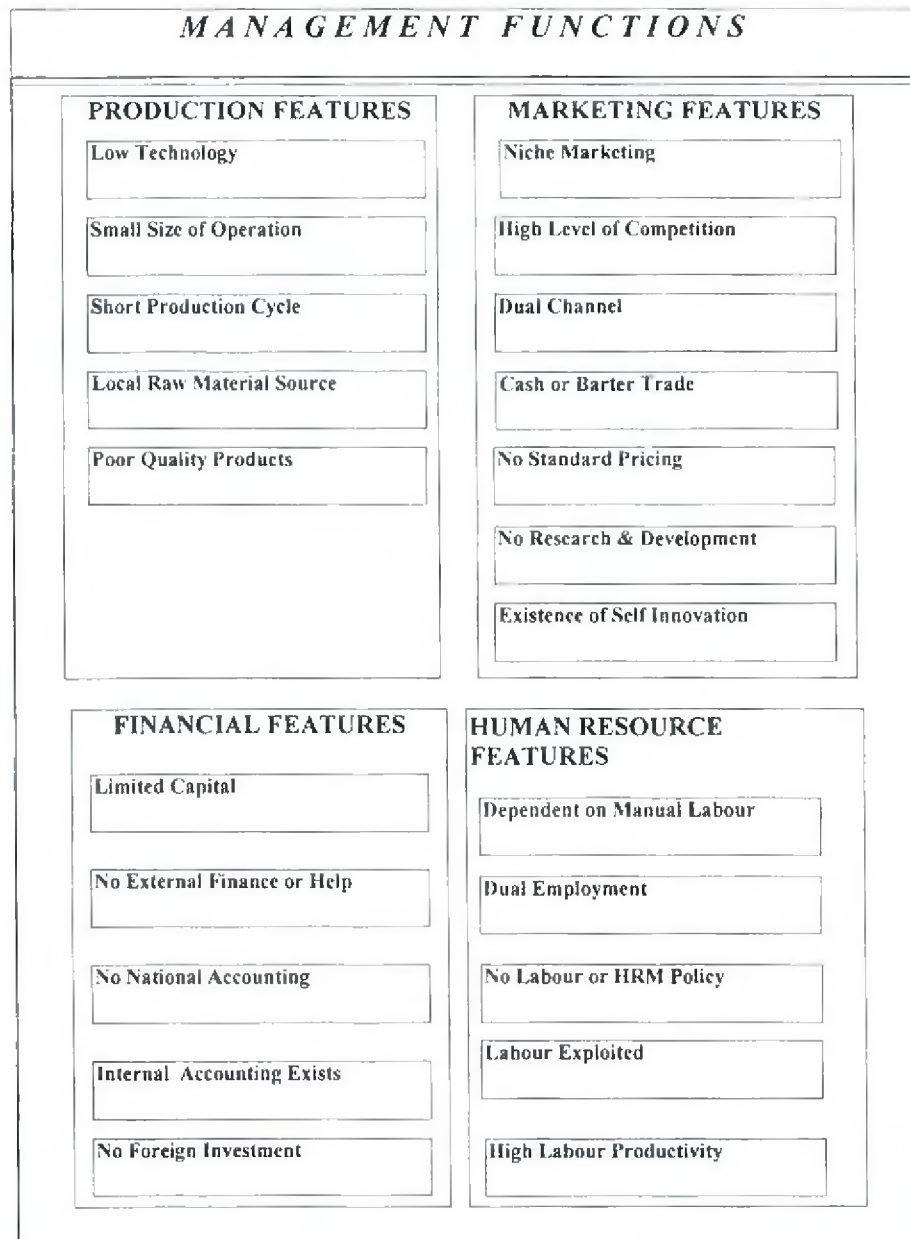


Figure 6. 3: The Conceptual Framework of the Overall Management Functions.

Marketing Practices in the Informal Sector

The basic issue of this research is focused on marketing. The most important aspect that should be considered is that the presence of informal sector is primarily felt in the market place where street traders over the years have made their presence felt to the larger part of the consumers and have always been a concern for the government. Further, it has been observed that the initial involvement of migrants in the informal sector starts with their engagement in trading (Lubell, 1990). Although very little literature is available on marketing some research on relationship with entrepreneurship and marketing linkages has been undertaken. The most fundamental characteristics underlying all informal business tactics as outlined by Arellano (1994) is a pragmatic knowledge and understanding of the needs and wishes of the customers. Being small in nature and being devoid of any formal control they are better equipped to adapt to the economic situation of their country and its cultural peculiarities.

The Marketing Concept

Miles (1991) carried out an empirical investigation to identify whether or not marketing concept and entrepreneurial concept would represent the same philosophy. The major finding of the study, which was limited to small business, has indicated that though the two are correlated but they do not appear to represent the same underlying business philosophy. A survey developed by Morris and Gordon (1987) to test the hypothesis that "more entrepreneurial firms will be more marketing oriented," indicated that entrepreneurial scores were higher for firms in which:

1. There was a formal marketing department,
2. Marketing professionals were in senior executive positions,
3. Marketing research was a regular activity, and
4. Marketing was felt to play a major role in innovation and the strategic direction of the firm.

The Consumer Profile

Smith (1987) undertook a study in the United States to identify the consumer profile using a national probabilistic sampling. The major findings of the study indicates the following:

1. increase in level of education is directly proportional to the quantity of purchase from the informal sector,
2. the higher the family income, the more likely that the family will participate in the informal economy,
3. white families seem to spend more compared to the non-white families,
4. informal sector purchases rise up to 35 years and then declines,
5. marital status does not have any impact on purchase behavior, and
6. the size of the family likewise does not have any relationship with regard to purchase.

Hills and LaForge (1992) state, "The knowledge base for the emerging field of entrepreneurship should be inter-functional and inter-disciplinary. Yet the functional discipline of marketing has contributed to the entrepreneurship field in only recent years. . . ". The authors discuss three major issues in their article:

Street Trading and Vending

Street trading is one of the most classical marketing activities and at the same time the most prominent and large scale informal activity. Babb (1988) shows that almost 99 percent of the food sector retail activity in Peru are in the hands of small independent sellers. It has also been observed by Bromley (1978) that the status of street traders is unofficially recognized by the government in Columbia. He shows how the official regulations are trying to contain rather than eradicating this sector. It is obvious that the contribution of the sector is much greater than the actual element of illegality. Similarly, Josephine (1988) in her research, shows how the street traders are surviving in the streets and also critically recasts the marginality theory of informal sector under the conditions where a substantial amount of capital can be generated outside of the formal economy by the street traders and hawkers. Gary (1991) quotes the work of Oberai and Singh stating, ". . . a fair proportion of migrants who take up self employment on arrival start in the informal sector where they work as street vendors, porters, shoe shine boys and the like. " Research findings by Zlolski (1994) indicate that small-scale informal economic activities, such as home and street vending, are strategies to alleviate poverty. These strategies are undertaken by low-income workers in both formal and informal sectors in reaction to their segregate and vulnerable position under a restructured labor market.

Formal Informal Linkages

Lubell (1991) compiled studies undertaken in Africa, Asia, and Latin America on the first-degree forward and backward linkages existing in the various informal sectors. The major results related to first degree linkage are given in the Table 6. 1.

Table 6. 1 : Results Related to First Degree Linkage

City of Research	Backward linkage					Forward Linkage					
	Formal			Informal		Formal			Informal		
	Ret	W. S.	Prod.	Ind.	H. H.	Prod.	Ret.	Entr.	H. H.	Ret.	Entp.
1. Abidjan	Yes	-	-	-	-	-	-	-	Yes	-	-
2. Free Town	Yes	Yes	-	-	-	-	Yes	-	Yes	-	-
3. Lagos	Yes	-	-	-	-	Yes	-	-	Yes	-	Yes
4. Kano	Yes	-	-	-	-	Yes	-	-	Yes	-	Yes
5. Kumasai	Yes	Yes	-	-	-	Yes	Yes	-	Yes	-	Yes
6. Dakar	-	Yes	-	-	-	-	-	Yes	-	-	-
7. Bamako	-	-	-	-	-	Yes	Yes	Yes	Yes	-	Yes
8. Yaounde	Yes	Yes	-	-	-	-	Yes	Yes	Yes	-	-
9. Senegal	Yes	-	-	Yes	Yes	Yes	Yes	Yes	Yes	-	Yes
10. Jakarta	-	-	-	-	-	-	-	-	Yes	-	Yes
11. Manila	Yes	Yes	Yes	Yes	-	Yes	-	-	Yes	-	-
12. Dhaka	-	-	-	Yes	Yes	Yes	-	Yes	Yes	-	Yes
13. Bangkok	-	-	-	-	-	-	-	Yes	-	-	Yes
14. Wardha	Yes	Yes	-	Yes	Yes	Yes	Yes	-	Yes	Yes	-
15. Ghaziabad	Yes	Yes	-	-	Yes	Yes	-	Yes	Yes	Yes	-
16. Allahbad	Yes	Yes	-	Yes	Yes	Yes	-	Yes	Yes	Yes	-
17. Jaipur	Yes	Yes	-	Yes	Yes	Yes	-	Yes	Yes	Yes	-
18. Delhi	Yes	-	-	-	-	Yes	-	-	Yes	-	Yes
19. Campinas	Yes	-	-	-	-	Yes	-	Yes	Yes	-	-
20. Santiago	Yes	-	-	-	Yes	-	Yes	-	-	Yes	Yes
21. Lima	-	-	-	-	-	-	-	-	-	-	Yes

* Ret. = Retail; W. S. = Whole Sale; Prod. = Producer; Ind. = Individuals

H. H. = HouseHold; Entr. = Enterprise; Entp. = Entrepreneur.

Source: Adapted from – Lubell H. Development Center Studies, OECD.

It is thus apparent from the study that "first degree forward and backward linkage" model can be developed for better understanding the formal-informal relationship.

The Conceptual Model

The conceptual model of the first-degree backward-forward linkage can be visualized as given in the Figure 6. 4. The following major conclusions can be drawn based on the first-degree backward-forward conceptual model:

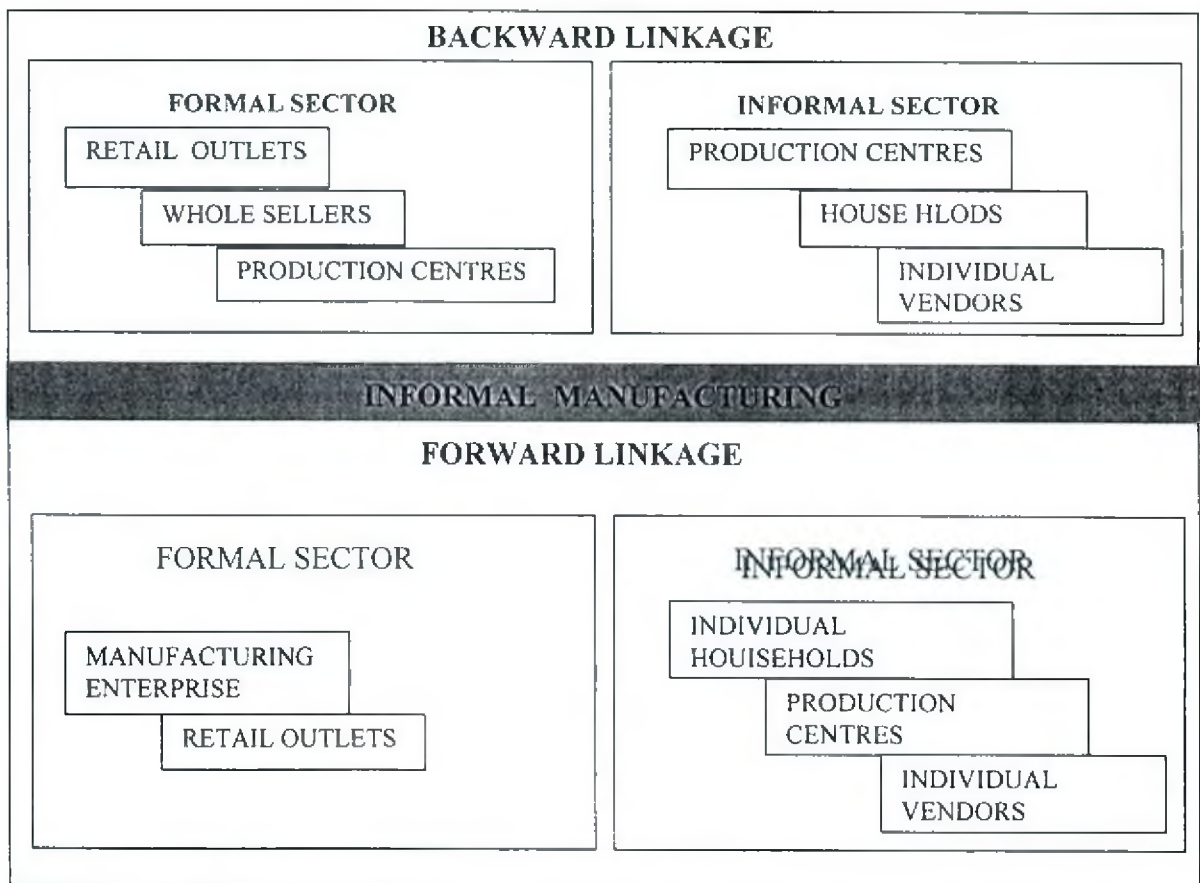


Figure 6. 4 : The Conceptual Model of First-Degree Backward and Forward Linkage Between the Formal and Informal Sector.

Backward Linkage: Both the formal and informal supply sources play an equally important role. In terms of the formal sector influence, the traditional outlets play the major role as a supply source, however, large manufacturing units also act as suppliers in some situations. The involvement of traditional retail outlets as the major source of supply, even though the unit price at the retail level is likely to be higher, suggests that informal entrepreneurs prefer such units because of:

1. small quantity of purchase
2. being part of the locality, and
3. easy accessibility

While looking at informal sector sources, one can see that other informal units are the major suppliers and trade to a great extent is directed by interpersonal relationships, flexible operations, and high levels of trust.

Forward Linkage: The major buyers of the informal sector are within the informal sector itself. Probability exists that these channel members of the informal sector ultimately sell the goods in this market. In addition, the strong linkage between the manufacturing units within the informal sector suggests that this is perhaps one of the major strengths ensuring the sustenance and growth of the informal sector. This further strengthens the argument that the level of dependency and trust is an important factor. The presence of sub-contracting in the informal sector is also evident. This is also supported by the reality that a large quantity of informal output is an input for the formal sector.

The Probable Linkage

Given the linkages, the informal-formal dichotomy appears to be a "false dichotomy." A more appropriate conceptualization would be to view informal and formal as the two anchor points on a continuum. The informal-formal dichotomy is essentially causing ambiguity in understanding the so-called informal sector. It is more pertinent to consider the two as parts of the same continuum having a direct linkage, varying only in terms of complexity of operation, flexibility in management, and level of trust within the informal sector due to a hostile external environment. Moreover, it is clear that movement (i. e. , the distribution of goods) from informal to formal and vice-versa can take place when there is mutual benefit. Although movement of the labor force is observed all along the continuum, production is more directed towards informal while purchasing of raw materials and selling of finished goods is bi-directional. The continuum of the formal-informal linkage is represented in the Figure 6. 5.

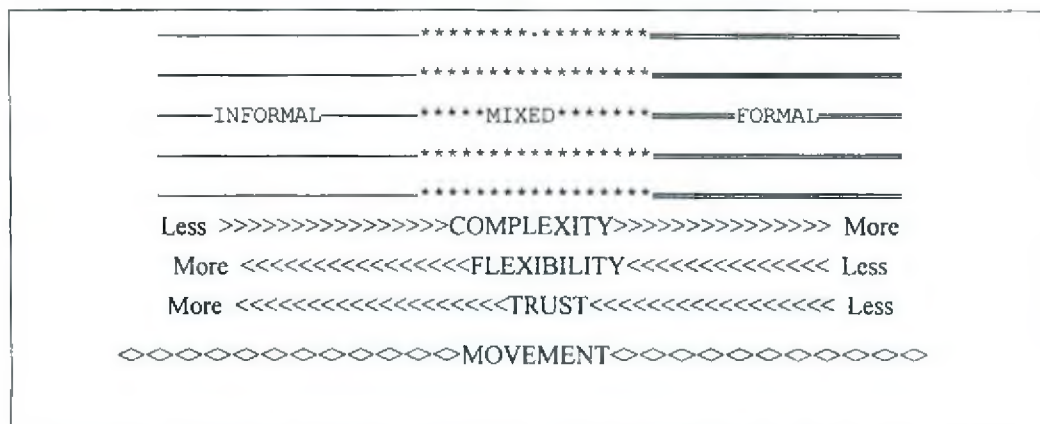


Figure 6. 5: The Continuum of Formal and Informal Linkage

Hypotheses

The models in figures 2.1, 2.3, 6.1, 6.2, 6.3, 6.4, and 6.5 depicted earlier suggests that the following hypotheses require empirical validation in Bangladesh context.

- H1:** The definition of the informal sector as outlined in this research is true for the informal manufacturing sector of Bangladesh.

- H2:** The management characteristics of the informal enterprises have its own peculiarities not found in the formal sector.

- H3:** The informal manufacturing sector is transient in nature.

- H4:** The informal sector is exclusive in nature and thus the dichotomy theory prevails.

- H5:** The marketing system prevailing in the informal sector is totally different from that of the formal sector.

- H6:** The formal-informal sectors are dependent on each other and cannot survive independently.

- H7:** The informal manufacturing sector is one of the major contributors to employment and GDP.
- H8:** The marketing channel is very short and heavily depends on personal selling.
- H9:** Scope for introducing modern marketing techniques and tools exists within the framework of informality.
- H10:** The formal marketing units are price setters and price dictators.

CHAPTER VII: FIELD PLANNING AND FIELD EXPERIENCE

Sampling Statistics

The major objective of the field work during stage three was to ascertain the approximate number of units available within the delineated research area. After ascertaining the total number, the respondents were selected on a systematic basis. Local campaign was done to see the availability and willingness of the respondents. Tables 7. 1a & 7. 1b contain the sampling distribution.

Table 7. 1a : Sampling Statistics of the Informal Sector

Industry Type	Number of units identified during listing	Samples hit	Refused interview	Rejected interview	Actual interview	% of interview
Plastic	1000	264	53	9	202	20. 2
Shoe	1600	427	158	19	250	15. 6
Leather Goods	700	288	79	8	201	28. 7
TOTAL	3300	979	190	36	653	19. 8

Table 7. 1b : Sampling Statistics of the Formal Sector

Industry Type	Number of units identified during listing	Samples hit	Refused interview	Rejected interview	Actual interview	% of interview
Plastic	50	17	5	1	11	22
Shoe	100	22	13	0	9	9
Leather Goods	20	15	7	0	8	40
TOTAL	170	54	25	1	28	16.5

Field Planning, Monitoring & Control

As stated earlier field investigation was undertaken in six stages. The stages involved:

1. Investigation of the various outlets selling the products under investigation to identify geographical area concentrating housing the manufacturers and starting points.
2. Visiting the locations to arrive at an understanding of the concentration type and size in the aforesaid sampling area.
3. Interview of the selected entrepreneurs to identify the approximate number of units in the respective sampling area.
4. Undertaking pre-test to assess the knowledge base of the target respondents for developing the questionnaire.
5. Pre-testing of the questionnaire.
6. Actual enumeration of the respondents.

A total of 28 field workers was engaged during the survey period. Each sector was assigned eight field workers and one field supervisor. The field coordinator and the field supervisors were responsible for the overall monitoring of the field force. Monitoring involved random visits of every third unit by the monitoring team. Twenty percent of the respondents were randomly back-checked by the Ph. D. student. De-briefing of the field investigators was undertaken after every 50 interviews. De-briefing ensured consistency on the data collection process.

Filled-in questionnaire was edited for any inconsistency during data entry stage. Data entry ensured that meaningful data, in line with the questionnaire was entered. The Ph. D. student was directly involved during the data entry stage. For inconsistencies in the data the specific respondent was re-visited and corrections made where necessary.

Field Experience

The researcher has encountered various situations during the field survey. But in most of the cases the experiences were expected and only in a few cases unanticipated experiences were observed. A list of significant experiences is given below:

1. The percentage of refusals at both the formal and informal levels was very high (see table 7.1a & 7.1b). The reasons for refusals for the two were however different. For the formal the refusals were primarily due to work load or non-availability of the respondent; while in case of the informal sector it was mainly due to suspicion that the enumerators were actually tax collectors or the like.
2. During the data collection process, however, the support from the informal sector was higher compared to their formal counterpart. Once the purpose of the study was outlined the informal sector was found to be much more enthusiastic.
3. It was slightly more difficult to collect information on questions using interval scales. The meaning of the various points in scale was difficult to interpret and thus required clarification.
4. Back-checks in several cases indicated that the unit had moved to a different place. However, due to close association amongst manufacturers within a sub-sector it was quite easy to trace the unit.

However, data obtained were in conformity with the data design. Consequently, the quality of the research is not in any way affected by the data obtained at the empirical level.

CHAPTER VIII : DATA ANALYSIS AND FINDINGS

Both qualitative and quantitative techniques were used to ensure objectivity during analysis. Data analysis and interpretations were carried out in a systematic fashion in order to test the hypotheses and reach at the research objectives.

Mechanism of Initiation of the Informal Sector

Eleven factors were identified as contributing to initiation of the informal sector (See the detailed data in appendix VIII-A), four of them were found to be major contributors. Correlation analysis indicates that for all three categories of informal sector the result was statistically similar. The mean correlation coefficient was 0. 88 (see the detailed analysis in appendix VIII-B). Of the eleven factors three clusters were identified, based on measure of spread using quartile deviation. The analysis showed four divisions : highly influence, somewhat influence, little influence, and negligible influence. The factors (arranged in order of importance) under each of the above categories are :

1. Highly Influence : Past experience, Family background, Involvement with the trade.
2. Somewhat Influence : Lack of better opportunity, Improving poor financial status , No specific reason.

3. Little Influence : High Profitability, Lead from friends, Had to do something.
4. Negligible Influence : Idle fund, Support from NGO/Government.

The Definition of Informal Sector

While evaluating the definition of informal sector, the conceptual framework developed earlier in this research was used as the bench mark. Thus, the validity of the set definition was tested in Bangladesh context. This was essential to confirm if the definition could be considered as standard. Thus, hypothesis (Ho-1) that *The definition of the informal sector outlined in this research is true for the informal manufacturing sector of Bangladesh* is partially accepted.

As stated earlier the elemental factors associated with the conceptual definition are reproduced for ease of reference. The informal sector is:

1. associated with tax evasion,
2. not mentioned in the official statistics,
3. outside the realm of formal economy,
4. an illegal entity in its status, and
5. a major sector of the employment.

The primary survey considered 25 factors (See the factors in Appendix IX-A) inclusive of the conceptual ones to assess the authenticity of the definition. Data were gathered using an interval scale of 1-5 to assess the level of agreement with various factors. Correlation coefficient was first calculated to assess the relationship among the three sub-sectors under study (See detailed analysis in appendix IX-B). Results indicated a mean (paired) correlation coefficient of 0.72. The analysis suggests that the three categories under study can be treated as part of the same set as far as the definition of the informal sector is concerned.

To identify the factors or elements of the informal sector, the average of the deviations from the arithmetic mean was calculated for the twenty five factors using the formula for average deviation (AD):

$$AD = \frac{\sum |X - \mu|}{N} \dots\dots\dots 8.1$$

$$AD = \frac{\sum |x|}{n} \dots\dots\dots 8.2$$

where N is the population size and "x" is defined as an individual deviation from the arithmetic mean or $x = (X - \mu)$. Similarly in the case of deviations from sample mean were also calculated (Appendix VII).

The Arithmetic deviation around means have been calculated to find out the relevant elements having deviation above the mid value of the 5-point scale. The analysis suggested eleven elements (as depicted in Figure 8. 1) which are relevant to the conceptual definition.

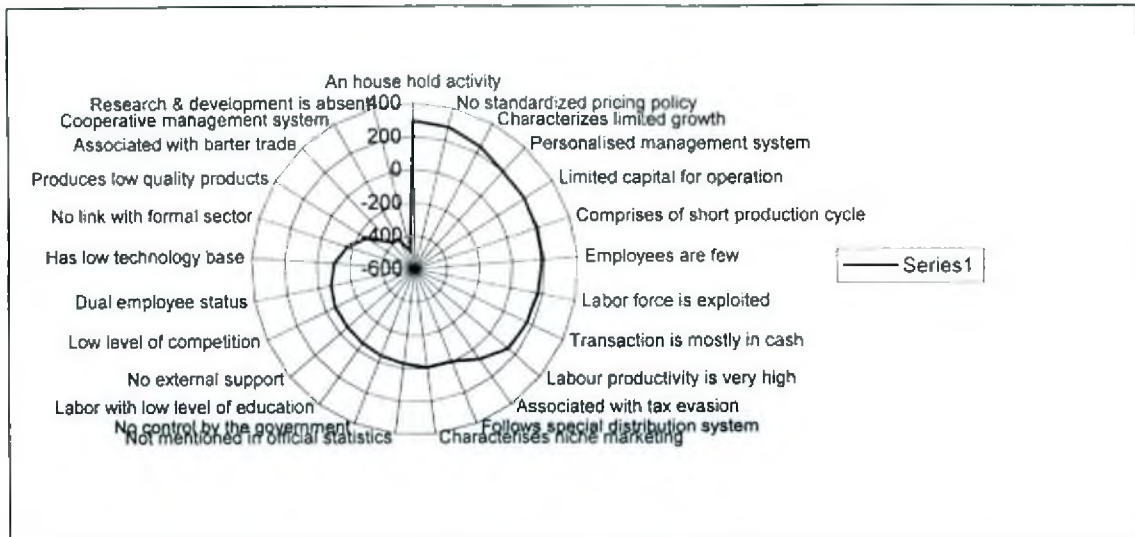


Figure 8. 1 : Elements of Informal Sector

The eleven factors/elements of the informal sector (arranged in order of importance) are:

1. An household activity.
2. Does not comprise of any pricing policy.
3. It is characterized by limited growth.
4. The management system is personalized in nature.
5. Have limited capital for operations.
6. Comprise of short production cycle.
7. Employees are few in number.

8. Labors are exploited in terms of wages and work hours.
9. Transactions are mostly in cash.
10. Labor productivity is very high.
11. The sector is associated with tax evasion.

The data indicate that the hypothesis (Ho-1) of the research *The definition of the informal sector as outlined in this research is true for the informal manufacturing sector of Bangladesh* is only partially true in the sense that only one of the elements was found to exist (1) and another was found to prevail partially (3). Thus the new definition of the informal sector should be:

“It is that part of the economy which is primarily considered as an household activity and is characterized by tax evasion. The units have limited operating capital and are devoid of any pricing policy characterizing limited growth and cash transactions. The management system of the enterprises are personalized in nature with small number of employees having low wages or salary and no fixed working hours. The system comprises of short production cycle having high productivity of labor”.

The new definition is more broad and comprehensive which includes as many as eleven elemental characteristics.

Management Characteristics and Operational Practices

This section deals with the management practices of the informal sector and a comparison has also been made with the formal sector enterprises. A comprehensive perspective shows the extent of similarity between the formal and the informal sector operation.

Ownership Status

A comparison of the ownership status of the informal and the formal sector is given in Figure 8. 2. Correlation analysis of 0. 47 (See appendix X for detailed analysis) indicates that the relationship is statistically significant. It is therefore evident that as far as the ownership status is concerned the hypothesis (Ho-2) that *The management characteristics of the informal enterprises have its own peculiarities not found in the formal sector*, cannot be rejected.

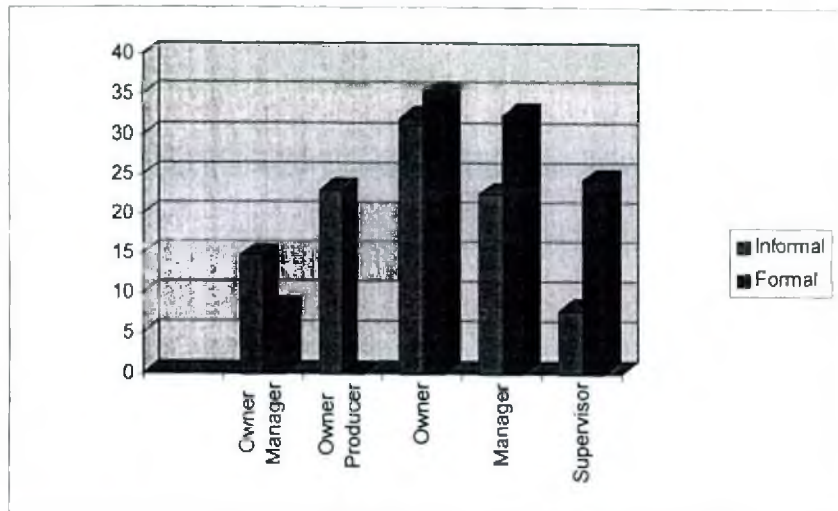


Figure 8. 2 : Comparison of the Ownership Pattern Between Informal and Formal Sector

The figure indicates that the informal sector is unique in having owner producers which is rather unknown in the formal sector.

Years in Operation

While identifying the number of years in operation, it was noted (see the pattern of decline in the number of units over time in Figure 8. 3) that there is a high mortality rate among the informal units. Generally, units survive for 1 to 6 years' only 2 to 3 percent units survive beyond fifteen years. This validates the hypothesis (Ho-3) stating that *The Informal manufacturing sector is transient in nature.*

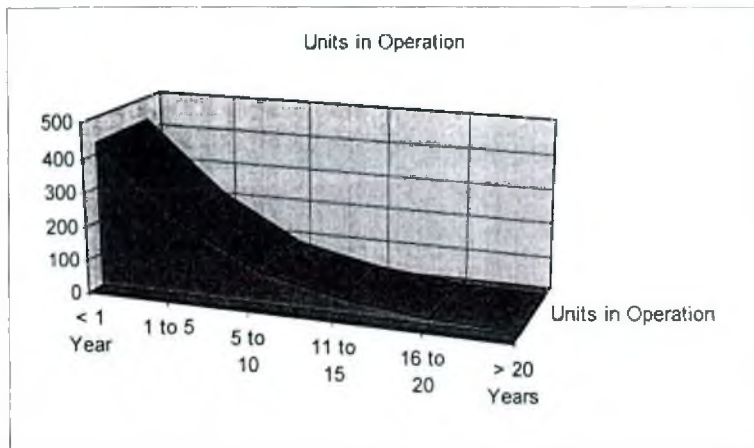


Figure 8.3 : Pattern of Decline in the Number of Units Over Time

Registration Status

The registration status is a major legal/administrative factor distinguishing the informal from the formal sector enterprises. It was therefore essential to use this parameter as the criterion for testing the management hypothesis (Ho-3) that *The informal sector is transient in nature*. Results indicate that 80 percent out of the total 979 sample units enumerated were found non-registered. This was one of the main reasons why such a high number of units (190) refused to participate in the survey. A comparison with the formal sector enterprises showed that all of the formal sector units are registered. Ten informal units are registered with Dhaka Municipal Corporation while the remaining one was registered with BSCIC.

Expansion Since Initiation of Trade

This is another criterion to assess the management operation of the informal sector. It was observed that all the sub-sector under study had similar results ($r^2 = 0.96$). It was also observed that the formal sector also behaved in a similar way ($r^2 = 0.71$). The results further indicated that though substantial expansion had taken place in number of product and market coverage, but the production capacity had not increased significantly (see the data on Appendix XI). This implies that the informal manufacturers having capacity tend to add new products and markets instead of expanding their already unutilized production capacity.

Reasons for Non Expansion

It has been observed that the formal units are different from their informal counterparts in that they have undertaken expansion plan. A total of 19 reasons for non-expansion have been volunteered by the respondents when they were asked to list three major reasons. The major factors were identified using "Average deviation from mean". The factors identified are:

- a. Financial limitation
- b. Lack of raw material
- c. Marketing bottle neck
- d. Lack of skilled labor

However, the financial limitation was cited as the overriding factor; more than 40 percent respondents stated that they could not expand because of financial limitations (see the detailed data in Appendix XII).

Level of Satisfaction With Functional Activities

In assessing the level of satisfaction with various functional activities ratings were obtained on a number of factors which were then put in comparative perspective (see Appendix XIII-A). It was found that all the three sub-sectors responded in a similar manner with $r^2 = 0.96$ (see detail analysis in appendix XIII-B). A similar pattern exists between the informal and the formal sectors; the value of rho is 0.79 (see detailed analysis in appendix XIII-B). The various functional activities were arranged in order of importance (see Table 8.1). It is significant to note that the informal sector identified the human resource as the major satisfying function. This could primarily be due to self-employment or/and low wages. The weak links for both the sectors were identified as finance and marketing.

Table 8.1 : Level of Satisfaction with Functional Activities

Rank	Informal	Formal
1 st	Human Resource	Production
2 nd	Equipment's	Raw Material
3 rd	Production	Equipment's
4 th	Raw material	Human Resource
5 th	Marketing	Marketing
6 th	Financial Aspect	Financial Aspect

Seven major factors were identified as contributing to the satisfaction level. It is important to note that none of the major factors is directly associated with the overall management of the operation. The factors in order of importance are:

- a. Knowledge of the business.
- b. High level of profit.
- c. Family involvement.
- d. High level of future prospect.
- e. No special reason.
- f. Low capital requirement.
- g. Labor availability.

The factors identified as the source of dissatisfaction are arranged as:

- a. Future prospect.
- b. Low profitability.
- c. Law and order situation of the country.
- d. Political instability in the country.
- e. No special reason.

It has been observed that very few respondents could actually answer this question. Most of the respondents (92%) either did not want to answer or had never thought of the issue for any practical term.

The analysis, therefore, indicates that though the formal and the informal sectors differ in certain degree they do have certain commonality. Thus, the hypothesis (Ho-4) that *the informal sector is exclusive in nature and thus the dichotomy theory prevails*, is rejected.

Analyzing the Strength and Weakness of Functional Features

The strengths and weaknesses of six functional factors for both the formal and the informal sector were evaluated using a 5-point interval scale. The factors are:

1. Production,
2. Marketing,
3. Raw materials (purchase),
4. Human resource,
5. Finance, and
6. Equipment (logistic facilities).

The ratings, which have been subjected to cluster analysis, are given in Figure 8. 4.

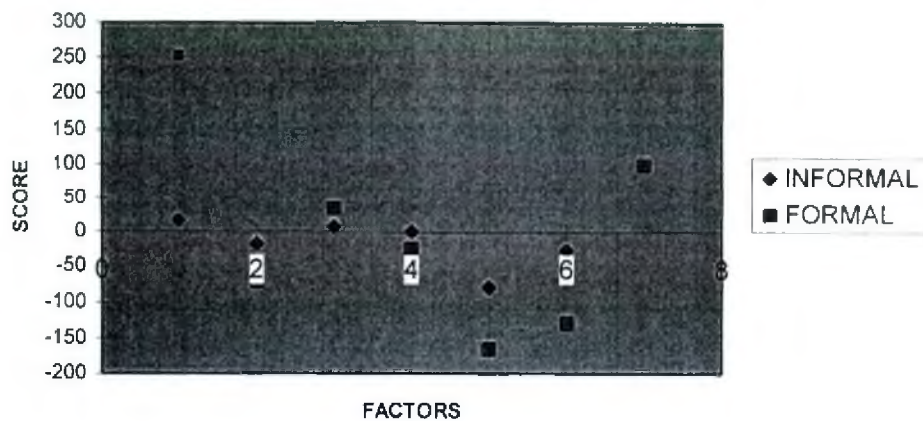


Figure 8. 4 : Strength and Weakness Analysis

It is clear from the figure that factors 1 and 3 are considered as strengths for both the formal and the informal sector while the remaining factors were stated as weaknesses. The extent of strength/weakness however varies for the two sectors. Intra-sectoral comparison among the sub-sectors in informal sector showed a high to moderate correlation value of 0.77 (see appendix XIV for detail); while inter-sectoral comparison between the informal and the formal sector gave a rather weak correlation value of 0.62 (see appendix XIV for detail).

The Production Status

This section deals with factors associated with production. Some of the major items, which were considered important, were addressed in this research. The detail technicality of the production process was not contemplated to be an essential part of the research.

Type of Production

Table 8. 2 illustrate the sub-sector of production classified in terms of: permanent, temporary, and seasonal. Results indicate that most of the units are permanent in nature.

Table 8. 2 : Classifying Type of Production in the Informal Sector

Sub-sector	Permanent		Temporary		Seasonal		Total
	<i>Frequency</i>	<i>Percent</i>	<i>Frequency</i>	<i>Percent</i>	<i>Frequency</i>	<i>Percent</i>	<i>Frequency</i>
Plastic	168	83.17	30	14.85	4	1.98	202
Shoe	235	94.00	15	6.00	0	0.00	250
L. Goods	190	94.50	10	4.90	1	0.60	201

The above table can also be used to verify the hypothesis (H3) that *Informal manufacturing sector is transient in nature*. The findings suggest to reject the hypothesis. It is evident that more than 90 percent of the enterprises are permanent in nature. This strengthens the literature finding, where a substantial growth of the informal sector is observed. However, the conclusion surrounding the above hypothesis is compounded by the fact that, out of the total 653 units under survey, 620 respondents were found to be involved in agriculture. Of course, the income originates from the informal manufacturing was stated to be as high as 90 percent on an average.

Type of Ownership of Production Premises

Table 8. 3 illustrate the ownership status of the production premises.

Table 8. 3 : Ownership Status of the Production Premise

Type	Own	Company	Rental	Lease	Others	No Reply	Total
Plastic	25	1	175	0	1	0	202
Shoe	26	0	186	1	0	37	250
L. Goods	11	0	188	0	1	1	201

The table indicates that most of the informal units use rental premise for manufacturing. This does not however contradict the earlier findings but primarily shows that the units are financially weak and as such are shy of fixed capital outlay for owning the premise. The finding strengthens the hypothesis (Ho-3) that *The informal manufacturing sector is transient in nature.*

Production Capacity & Expansion Plan

No information regarding total capacity and capacity utilization could be gathered. The respondents were either unaware or were unwilling to provide the information. However, it was observed that a proportion of 33, 35, and 24 units of the plastic, shoe, and leather goods sector had undergone expansion since inception. This indicates that though the actual number of the units/entrepreneurs are increasing, the growth or expansion of units is still under the threshold level.

Technical Assistance

A large number of respondents stated that they obtained production related technical assistance/training from informal sources. None of the respondents acquired assistance on a formally paid basis. Table 8. 4 gives a detail of the technical assistance related to production acquired by the respondents.

Table 8. 4 : Technical Assistance Acquired

Factors	Product Type			Total
	Plastic	Shoe	L. Goods	
Guru*	50	57	82	189
Father	5	22	7	34
Brother	3	4	6	13
Self	10	2	4	16
Govt. /NGO	0	1	1	2
Others	6	2	8	16
No Response	128	162	93	383
Total	202	250	201	653

* Represents typical 'master-journeymen' relationship of Britain before Industrial Revolution.

The Human Resource Status

The human resource issue is considered very important since initial survey indicated that most of entrepreneurs of this sector were self-employed and thus it was essential to determine if the literature finding showing such a large number of employment in this sector was correct. The distribution of labor in various functional areas was also assessed.

Pattern of Engagement of Human Resources in Different Sub-sectors

Data indicate that per unit distribution of labor in all the three sub-sectors has a similar pattern (Table 8. 5). The data further indicate that the distribution of labor force is also similar for the three sub-sectors under study. The study also supports the hypothesis (Ho-7) that *The informal manufacturing sector is one of the major contributors to employment*. On an average, each unit employs 3-5 persons.

Table 8. 5: Per Capita Distribution of Labor

Sector	Number of Units	Available Manpower	Per unit Manpower	Maximum Number	Minimum Number	Standard Deviation
Plastic	202	992	4.91	30	1	6
Shoe	250	999	3.99	20	1	6
L Goods	201	698	3.47	30	1	4

Functions-wise Engagement of Human Resources

The correlation analysis suggests that the sub-sectors under study have similar pattern in function-wise distribution of human resources ($\rho = 0.92$). The study further indicated that the units were mostly production oriented. This was clear from the results indicating that 100 percent of the labor were directly engaged in production function. The detailed distribution of labor is given in Appendix XV. The study further indicates that the sub sectors under study rely least on hired labor for marketing and finance activities. Many of the workforce are engaged in

multiple activities; of course, mainly in production. Thus, the concept of functionalization of expertise is least important in this sector. Figure 8. 5 gives the distribution of workforce in various functional areas.

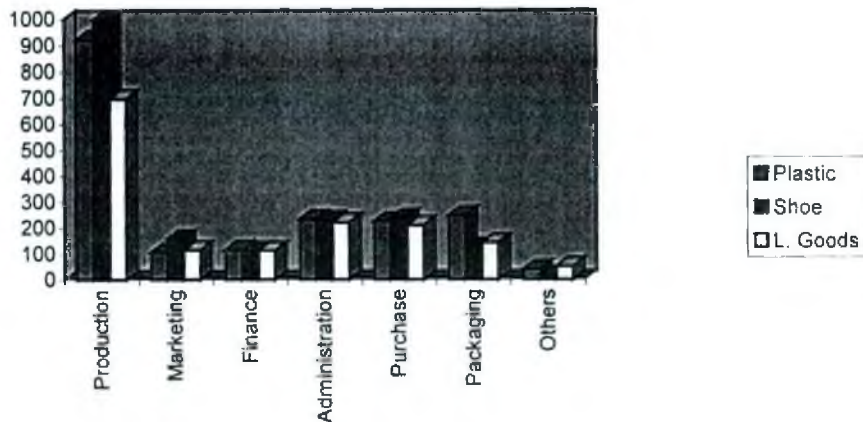


Figure 8. 5 : Distribution of Workforce in Functional Areas

The Financial Perspective

The financial perspective was analyzed to assess the financial strengths and weaknesses of the sector, the dependence on lenders, and the allocation of financial resource over various functional areas. The financial strength was again assessed considering both total assets as well as liquid capital.

Financial Strength of the Sector

The study indicates that very few enterprises under study have fixed capital in the form of land and building for purpose of business. Only a small proportion of the enterprises (varying from 5 to 15 percent) under study have business capital. Of course, many of them have such assets in their village home. On the other hand, almost all of the enterprises own equipment and furniture needed for business. Personal or enterprise transport was found to be negligible (see Appendix XVI for details).

A 5-point interval type of scale has been used in assessing the financial status in terms of satisfaction and dissatisfaction and the results indicate that the majority of the respondents are dissatisfied with the present financial status of their business. Figure 8. 6 shows the perceived financial status of the sub-sectors under study.

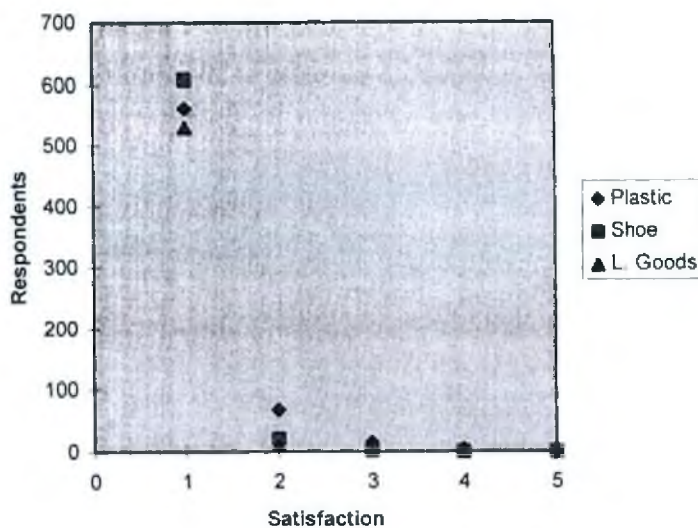


Figure 8. 6 : Satisfaction Level of Entrepreneurs Regarding Financial Status of their Business.

Dependence on Lenders

Contrary to general belief the study shows that dependence on external lenders is minimal (see data on Table 8. 6). The entrepreneurs are self-dependent. They want to remain independent rather than to depend on others. However, during exigency they do depend on close relatives and associates. However, external dependence was more prevalent in the plastic sub-sector followed by shoe. The leather goods sub-sector is almost totally self-dependent.

Furthermore, the amount of loan taken by the informal units is also minimal. The average loan for the three sectors combined stood at Tk. 55. 00 only; the minimum being Tk. 10. 00 and the maximum Tk. 500. 00.

Table 8. 6 : Source of Financing

SECTOR	No Reply	Self	Active Partner	Sleeping Partner	Bank	Friend or Family	Others
PLASTIC	14	175	5	1	8	11	1
SHOE	37	186	4	1	1	21	0
L. GOODS	15	191	0	0	0	4	0

Allocation of Financial Resources Over Different Functions

Table 8. 7 show the allocation of financial resource over the various functional areas. The data indicate that the distribution has a similar pattern over the three sub-sectors.

Table 8. 7 : Allocation of Financial Resource (in percentage)

SECTOR	Raw Material	Equipment	Salary & Wages	Production Expansion	Marketing
PLASTIC	25.86	27.59	12.07	20.69	13.79
SHOE	25.64	24.36	11.54	25.64	12.82
L. GOODS	30.00	30.00	0.00	30.00	10.00

The Marketing Operation

This section is focused on the marketing activities undertaken by the informal manufacturing units. The objective is to understand the marketing system prevailing in the informal manufacturing sector by developing a model.

Importance Given to Various Marketing Activities

A five-point interval scale was used to assess the importance of various marketing activities. Twenty-two factors were identified and their importance were assessed. The correlation for the sub-sectors has been calculated as 0.90, suggesting that the sub-sectors attach similar importance to marketing functions. The major determinants of marketing were considered as those having less than the median score value, i. e. 3. This value was taken as the cut off because any value less than the median value had been considered as an important factor. Based on the above determinant scale the median value for the three sub-sectors was calculated as:

Median Score = Valid Case × Median value

- ∴ Median score for plastic = $177 \times 3 = 531$
 Median score for shoe = $182 \times 3 = 546$
 ^ Median score for leather goods = $163 \times 3 = 489$

Factors were indexed in terms of importance scores as contained in the Table 8.8. As formulated above, factors having scores below median value are unimportant.

Table 8. 8 Marketing Activities Considered Important

PLASTIC	Score	SHOE	Score	L. GOODS	Score
Pricing	296	Standardization	363	Pricing	329
Quality	342	New Product Development	387	Standardization	330
Money Collection	367	Quality	395	New Product Development	357
New Product Development	377	Money Collection	422	Quality	358
Profitability	418	Pricing	430	Profitability	363
Standardization	429	Profitability	463	Merchandising	401
Physical Distribution	454	Merchandising	495	Institutional Selling	443
Institutional Selling	509	Institutional Selling	545	Door to Door Selling	452
				Sales Force management	487

The results show that the three important factors are: pricing, standardization, and new product development. It is apparent that the informal manufacturing sector gives less emphasis on promotion and distribution, barring the promotional aspect of pricing and standardization.

Importance Given to Marketing

To assess the importance given to marketing it was necessary to assess the percentage of expenditure on marketing activities. Results indicate (see Figure 8. 7) that majority of the units spend only up to 10 percent on marketing effort while a minority spend up to 15 percent and only a handful of them spend up to 20 percent. This indicate that very little efforts were presently being placed on marketing of products. Of course, the unaccounted element (i. e. personal selling) of promotion is not considered in calculating the expenditure.

To appraise the importance of various marketing activities, the distribution of marketing budget to the various activity mix was assessed. The expenditure was distributed amongst seven factors identified during the preliminary survey. Results indicated that for all three sub-sectors a positive correlation existed percent, suggesting a similar pattern in budgeting allocation. The distribution indicates as high as 72. 7 percent of the expenditure on an average being allocated for raw material stocks while another 15. 3 percent being allocated on remuneration of marketing/production personnel. It is clear that the raw materials stocks use most of the marketing expenditure. Thus, very little is spent on core marketing efforts. (See Appendix XVIII for detail).

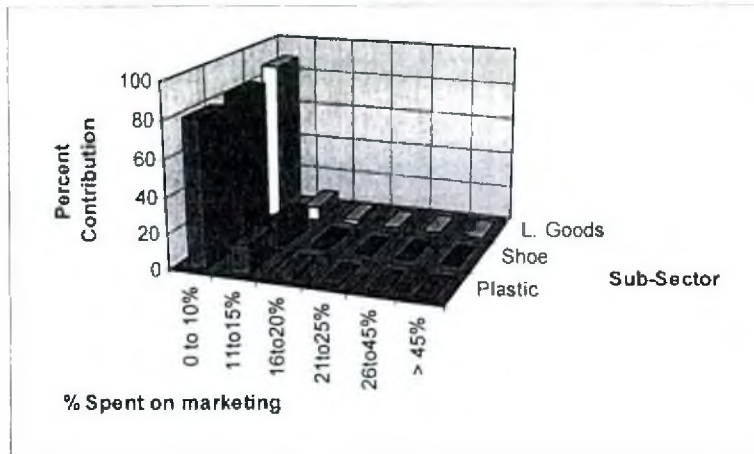


Figure 8. 7 Marketing Expenditure as Proportion of Total Expenditure

Co-Marketing Efforts

The study intended to find out the existence of any sort of co-marketing efforts in the informal manufacturing sector; this was regarded important because marketing efforts might at times be shared, particularly during retailing operation.

Results however indicated that only seven out of the total of 653 respondents were actively involved in co-marketing activities. On periscope, most of them don't plan to engage in a co-marketing arrangement. Only 23 units were planning for such a marketing arrangement. Out of the seven units presently involved in co-marketing considered it beneficial. The respondents having a positive outlook towards co-marketing opined that such co-marketing could be done at all spheres of marketing efforts. It is to be noted that relatively large units were associated with some kind of co-marketing activities.

While identifying factors contributing to non-participation in co-marketing, similar result was obtained from the three sub-sectors. A five-point scale was used to assess the level of importance of various factors involved in non-participation.

Six factors were identified : non-acceptance by the partner, difficult to trust, working alone is more profitable as it does not involve profit sharing, avoidance of encroachment in private affairs, difficult to set strategies, and long term relationship is difficult. Two factors were considered as the major ones based on total score obtained and level of importance in the five-point scale (see the detail data in Table 8. 9). The factors are : *low level of trust and lowering of profitability.*

Table 8. 9 : Factors Not Supporting Co-marketing Activities

Factors not supporting co-marketing	PLASTC	SHOE	LETH	TOTAL	RATE
1. Non acceptance by partner	141	196	144	481	2. 12
2. Difficult to trust	282	353	327	962	1. 74
3. Lower profitability	292	345	330	967	1. 82
4. Encroachment in private affairs	63	33	45	141	2. 56
5. Difficult to set strategies	112	45	46	203	2. 48
6. Absence of long term relationship	284	270	270	824	2. 60
7. Others	27	22	54	103	2. 58

Marketing Opportunity Through Membership

The study attempted to find out if the informal sector manufacturers were involved with any trade or other types of association through membership. Results indicate that only 50 units out of the total of 653 have some kind of business affiliation through membership in different associations and organizations. The nature of these associations varied from trade organizations to local bodies (see the list of associations/organizations in Appendix XIX). All seven leather goods units are member of PROSHIKA, a Non-Governmental Organization (NGO).

The various types of benefits obtained by the units under different sub-sectors is shown in Table 8. 10.

Table 8. 10 : Benefits Attained Through Membership of Association

Benefit Type	Plastic	Shoe	Leather Goods
Marketing	13	-	1
Linkages	7	-	-
Labor Force	4	-	-
Procurement	2	-	-
Financial	2	1	6
Technical	2	-	-
New Product	1	-	-
Others	2	-	1
No Benefits	9	3	1

Units in the plastic sub-sector find marketing as the most important benefit. Leather goods sector on the other hand was directly getting financial support from PROSHIKA. But none of 13 respondents could volunteer any reason for being affiliated, they did not derive any benefit.

The researcher has also attempted to identify the factors that limit such membership. The inquiry was intended to assess the awareness of the existence of such organizations and the possible reasons for non-affiliation. Correlation analysis indicate that the three sub-sectors have a similar response pattern (0. 94). Limiting factors along with their preponderance are listed in Table 8. 11.

Table 8. 11 : Disadvantages Associated with Membership

Factors	Plastic	Shoe	L. Goods
No response	33	37	42
No idea about such organization	77	107	87
Membership is expensive	4	13	7
Association are temporary in nature	5	4	8
No direct benefit for trade	27	19	18
Too much time consuming	37	53	62
Too much politics	4	14	8
It is filled with problems	7	9	6
Difficult to get loan	4	5	9
No specific reason	20	16	11
Total response	185	240	216

Results indicate that the majority of firms are not aware of the existence of such associations/organisations. Another sizeable portion indicated that they derive no benefit through such association and it was a waste of their valuable time.

Marketing Problems of Informal Units

As many as 18 problems were identified and listed (see Appendix XX-A and XX-B). The respondents also identified the three major problems presently being faced. The formula used to identify the major problems is:

Major problem = **Factor score above the mean factor score.**

Factor Score = **Problem as % of sample size × Rank score.**

Rank Score = **Sum of rank score / Number of factors(18).**

Results of the calculation based on the above formula are given in Appendix XX-A and XX-B. The major factors for the three sub-sectors according to importance so calculated were similar in nature. It can therefore be hypothesized that the informal manufacturing sector face similar kind of problem across the board. The three major factors identified for individual sub-sectors under study are:

- Plastic** : Financial constraint, credit sales & Raw material availability.
- Shoe** : Financial constraint & credit sales.
- Leather Goods** : Financial constraint, credit sales & raw material availability.

Informal enterprises strongly feel that intervention from the controlling authorities such as government and the support organizations such as financial institutions is essential in order to solve their problems. Of course, 16.38 percent of the units under study do not think that their problem can be solved and 18.60 percent do not see how their problems could be solved, if at all.

Export Potential

An analysis of the marketing potential of the informal manufacturing sector shows that none of the enterprises belonging to the plastic sub-sector was involved in export while only one out of the 250 shoe manufacturing was indirectly involved in export. In case of the leather goods nine units were indirectly involved in export through agents. Thus, both shoe and leather goods sub-sectors apparently have export potential. It is obvious that the units have export potential for specific product types. The exporters further stated that the quality of goods for the domestic and the export more or less the same, thus they use the strategy of product extension for purpose of exports. Only two units exporting directly were registered and thus had formal recognition from the Government. The list of importing countries is given in Appendix XXI.

Business Expansion Plan

The study indicates that the informal units are not clear about future plan. They hardly see the difference between short term and long term plan. Therefore, they suggested both short term as well as long term strategy for achieving the same objective.

The informal units have reflected a wide diversity in the type of plans they pursue and in their intention into the future. The major findings of the study relating to business plan are in summary form:

- a. The leather goods sub-sector has greater similarity with the shoe sub-sector compared to the plastic sub-sector.
- b. The plastic sub-sector is more dependent on short term planning concentrating primarily on the following issues (arranged according to importance:
 - New product development.
 - New production technology.
 - Human resource development.
 - Enhancement of financial support.
 - Expansion of markets.
- c. The issues in the case of shoe and leather goods were basically the same, though the priority was different. For shoe manufacturers the issues are:

- New product development.
- New production technology,
- Aggressive selling effort.
- Human resource development.
- Enhancement of financial support.

The issues for the leather goods sub-sector are:

- Human resource development.
- New product development.
- New production technology.
- Enhancement of financial support.
- Aggressive selling effort.

d. The long-term strategies pursued by the sub-sectors are depicted in Chart 8.1.

Chart 8.1 : Long Term Strategies Pursued by the Sub-Sectors

<i>Plastic Sub-Sector</i>	<i>Shoe Sub-Sector</i>	<i>Leather Goods Sub-Sector</i>
<ul style="list-style-type: none"> • Follow the industry. • New production technology. • Market expansion. • New product development • Enhancement of financial support. • Aggressive selling effort. 	<ul style="list-style-type: none"> • Follow the industry. • Market expansion. • New Product Development. • Retail outlet operation. 	<ul style="list-style-type: none"> • Follow the industry. • Market expansion. • New Product Development. • Aggressive selling effort. • Retail outlet operation. • Enhancement of financial support.

- e. It is to be noted that none of the informal manufacturers suggested strategy concerning partnership and going international. Moreover, the plastic sub-sector has no plan to venture into retailing its own goods.
- f. The results varied to a great extent when the respondents were asked to answer about future plans subject to the conditions that their problems were addressed. The three sub-sectors indicated similar strategic options for both short and long term plans. This response was determined after putting the units in non ideal situation where their problems would be addressed.

The short term future plans identified by the sub-sectors are provide in Chart 8.2.

Chart 8.2 : Short Term Future Plans

<i>Plastic Sub-Sector</i>	<i>Shoe Sub-Sector</i>	<i>Leather Goods Sub-Sector</i>
<ul style="list-style-type: none"> • Market expansion. • Product improvement. • Export marketing. 	<ul style="list-style-type: none"> • Export marketing. • Market expansion. • Product improvement. • Retailing. 	<ul style="list-style-type: none"> • Market expansion. • Export marketing.

The long-term future plans for the three sub-sectors as identified by the units are provided in Chart 8.3.

Chart 8.3 : Long Term Future Plans

<i>Plastic Sub-Sector</i>	<i>Shoe Sub-Sector</i>	<i>Leather Goods Sub-Sector</i>
<ul style="list-style-type: none"> • Retailing • Joint collaboration. • New market development. 	<ul style="list-style-type: none"> • Retailing. • Joint collaboration. • New product development. • Product improvement. 	<ul style="list-style-type: none"> • Retailing. • Joint collaboration. • Product improvement. • New product development.

- g. The study indicates that as high as many as 94 (46. 53%), 73 (29. 2%), and 90 (44. 78%) of the units of the plastic, shoe and leather goods sub-sectors respectively, have no plan for increasing the production capacity. The major reasons for such non-expansion as identified are depicted in Chart 8.4.

Chart 8.4 : Reasons for Non Expansion

<i>Plastic Sub-Sector</i>	<i>Shoe Sub-Sector</i>	<i>Leather Goods Sub-Sector</i>
<ul style="list-style-type: none"> • Lack of financial support. • Lack of physical facility. • Risk aversion. • Dull market situation. • Lack of technical support. 	<ul style="list-style-type: none"> • Lack of financial support • Lack of physical facility. • Risk aversion. • Lack of technical support. 	<ul style="list-style-type: none"> • Lack of financial support. • Risk aversion. • Lack of technical support. • Lack of physical support. • Dull market situation.

- h. An assessment of the possibility of overall expansion (new product, new market, and production capacity), indicates that only the shoe sub-sector has intention of undertaking an overall expansion plan, although prospects of expansion might have existed in the leather goods sub-sector (see detailed data in Table 8. 12).

Table 8. 12 : Plans for Expansion (in percentage)

Sub-Sector	Yes	No	Do not Know
Plastic	20. 19	48. 27	31. 54
Shoe	40. 80	30. 40	28. 80
Leather Goods	29. 35	19. 40	51. 25

Existing Marketing System

In assessing the existing marketing system of the informal manufacturing sector four major perspectives were considered.

- a . identify the target market of the informal manufacturing sector,
- b . identify the selling and distribution strategy followed by the sector,
- c . assess the formal-informal linkage issue, and
- d . advantages/disadvantages associated with various marketing activities directly associated with the system.

In evaluating the perspective number one and two the following scale has been used in order to obtain information about marketing practices:

Interval Scale : Level of importance – 1 Lowest and 5 highest.

Nominal Scale : Identify the marketing method followed from a list.

Direct Customers of the Sub-sectors

The Table 8. 13 shows that the major customer of the informal sector are the retailers. The second most important customers for the shoe and to a certain extent the plastic sector sub-sector are the manufacturers in general. The leather goods sub-sector however consider the individual buyers as the second most important customers. On an overall basis the three sub-sectors have a similar customer-mix indicated by the correlation value of 0. 742 (see appendix XXII for details).

Table 8. 13 : Customers of Informal Sector (figure in percentage)

Customers	Plastic	Shoe	L. Goods	TOTAL
Whole Sellers	6. 69	3. 75	6. 00	5. 38
Retailers	57. 53	45. 84	63. 43	55. 28
Individuals	6. 69	4. 56	10. 29	7. 14
Formal Manufacturers	1. 34	4. 02	1. 43	2. 35
Informal Manufacturers	1. 34	5. 36	8. 57	5. 28
Any Manufacturer	19. 06	35. 66	8. 57	21. 53
Private Vendors	6. 69	0. 54	1. 42	2. 64
Through Cooperative	0. 69	0. 27	0. 29	0. 39
TOTAL	100. 03	100	100	99. 99

Selling and Distribution Strategy

Data indicate that multiple strategy is followed by the sub-sectors (see Appendix XXIII). The informal units have been using as many as 13 alternatives. The alternatives include both traditional and non-traditional channels. The alternative channels of distribution used are shown in Figure 8. 8. The figure shows existence of multiple channel. At the same time study indicates that the most important channel is informal manufacturers' retail outlets. The contractual agreement with the various customer groups have shown some variations. The variation is more a part of the selling concept of the manufacturers. The hypothesis (Ho -8) suggesting that *The marketing channel is very short and heavily depends on personal selling* is therefore rejected. It is observed that the channel can be both short and long depending on the type of product. In addition, the informal manufacturers heavily rely on the retailers suggesting a 'push' type of strategy. Correlation analysis (see appendix XXIV for details) suggests that the sub-sectors have a similar practice in the area of selling and distribution strategy.

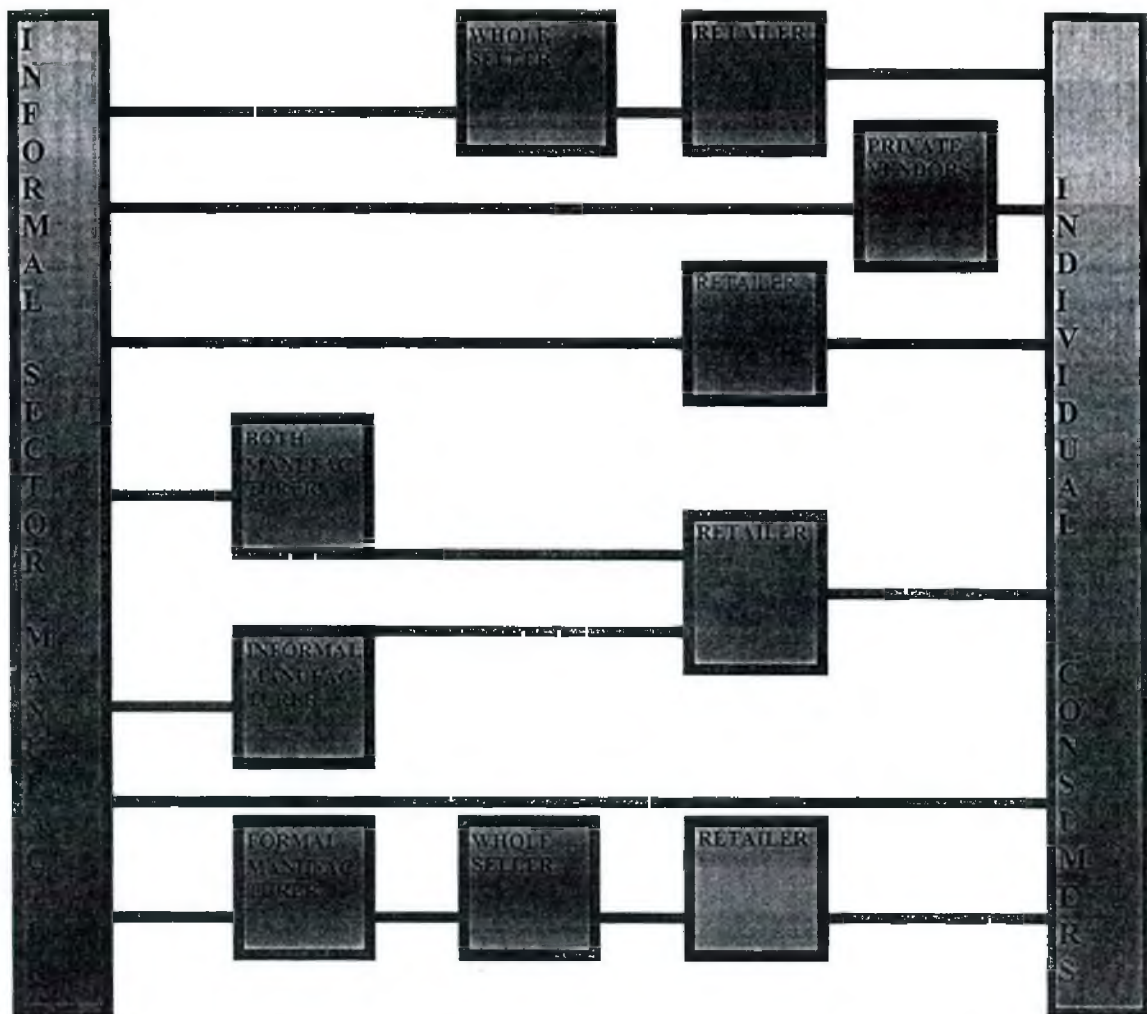


Figure 8. 8 : Selling and Distribution Linkage of Informal Manufacturing Sector

Appendix XXIII shows that the manufacturers have the concept of alternative branding strategy depending on the relationship with the customer. Data further indicate that the product of the manufacturers not only travels through multi-branding but may also travel through both formal as well as informal channels. This suggests that the flexibility prevalent in the sector.

Formal Informal Relationship

The relationship between the two sector clearly exists though one has the ability to survive without the other. It may be difficult for the informal sector to survive without the formal sector. Thus hypothesis (Ho-6) that *the formal-informal sector are dependent on each other and cannot survive independently*, may be partially accepted.

The study of the formal-informal linkage (Appendix XIX) indicates that the dichotomy theory proposed by Sandaratne 1991 does not stand. Depending on the situation the relationship may become competing, complementary, and symbiotic. The type of relationship varies with the type of formal operation. It is both competing and complementary in the case of formal manufacturers. It is symbiotic and complementary in the case of retailers. It is complementary in the case of whole sellers, and finally the relationship is symbiotic between the informal vendors and informal manufacturers.

Status of Various Marketing Functional Activities

Various marketing functional activities undertaken by the informal manufacturers need further analysis. An assessment in terms of advantage or disadvantage of the present status has been done. A 5-point interval scale (1-highly advantageous and 5-highly disadvantageous) was used. Fifteen statements indicative of functional activities were assessed. Results (correlation value 0.80) indicate a fairly similar response pattern across the sub-sector. The ranking of the

various factors is given in Table 8. 14. Ranks were calculated using the formula: Sum of Respondent Score/Total Number of Respondent. Once the rank point for each of the sub-sector was obtained the mean rank point was determined.

Table 8. 14 : Ranking of Factors to Determine the Importance of Various Marketing Functional Activities

Factors	PLS	SHOE	LTH	Mean Rank
1. Forced to sell products on credit	1 st	1 st	2 nd	1. 33
2. Irregular payment by intermediaries	2 nd	3 rd	1 st	2. 00
3. High rate of sales person turnover	10 th	11 th	12 th	11. 00
4. Demand higher then production capacity	13 th	13 th	14 th	13. 33
5. Low quality perception of products	9 th	9 th	9 th	9. 00
6. Lack of promotional effort	5 th	7 th	8 th	6. 67
7. Shortage of manpower	7 th	8 th	13 th	9. 33
8. Serious financial crises	6 th	4 th	5 th	5. 00
9. Harassment by regulatory bodies	12 th	10 th	11 th	11. 00
10. Coercion by formal sector	11 th	12 th	10 th	11. 00
11. Sell at a lower price to formal sector	8 th	6 th	7 th	7. 00
12. Low quality due to low level of technology	7 th	5 th	6 th	6. 00
13. Lack of bulk purchase due to storage problem	3 rd	1 st	4 th	2. 67
14. Inventory problem thus fail to meet demand	4 th	2 nd	3 rd	3. 00

The data in Table 8. 14 suggests top five functional elements of the informal sector: *credit sales, dependence on intermediaries, low volume purchase, niche marketing due to short production cycle, low capital base*. The findings essentially implies that the informal sector marketing has a characteristic inhibiting growth in that their dependence on others is considerably high and at the same time the short production cycle and low capital base forces them to stay small.

The result further supports the hypothesis (Ho-10) that *the formal marketing units are price setters and price dictators*. This is particularly true when we see that credit sales is the primary characteristic of the informal sector and also they sell at a lower price to the formal sector.

Competition in the Industry

Another important aspect of a marketing system is the competition. Competitors' profile of the informal manufacturing sector is given in Table 8. 15. Results indicate that the informal units primarily compete among themselves followed by the big firms of the formal sector. This further strengthens the earlier finding that the relationship between the formal and the informal sector being one of competing in nature.

Table 8. 15 : Competitors of Informal Manufacturing Sector

Competitors	Plastic	Shoe	L. Goods
Big Companies	58	61	53
Similar Companies	169	194	174
Cooperatives	4	0	0
Cottage Industries	12	15	24
Smuggling	12	15	0
Others	0	1	0
No Reply	2	5	5

Informal to Formal Competition : Product Dimension

The analysis considered perceptual data of the formal and informal sectors to assess the comparative quality of product. The comparison is made in terms of quality of raw materials which determines the quality of core product, quality of service associated with the product, quality of packaging material as a surrogate cue, and the overall finishing of the product. A five-point balanced scale was used to assess the quality of each factor. One indicated, higher quality compared to the formal sector competitors while 5 indicated, lower quality compared to the competitors.

The following major findings were obtained:

- a. Both sectors are in agreement that the quality of products produced by the formal sector is better compared to its informal counterpart (see detailed data in Table 8.16).
- b. The formal manufacturers perceive a greater qualitative difference in the product quality of these two sectors compared to the informal counterpart. However, the difference calculated numerically is marginal. The formal manufacturers perceived difference is 1.50 while the perceived difference is around 1.19 in the case of informal manufacturers, the scale used is 1-5.
- c. Both sectors ranked themselves higher in comparative scale while answering for themselves.

Table 8. 16. Product Quality Perception

Factors Of Products	Formal Perception		Informal Perception	
	Formal units	Informal units	Formal units	Informal units
Quality of Raw-material	1. 26	2. 63	1. 40	2. 36
Quality of Service	1. 36	2. 83	1. 53	2. 63
Quality of Packaging	1. 46	3. 06	1. 50	3. 23
Overall Finishing	1. 20	2. 83	1. 43	2. 40

Comparing the Marketing System of Formal and Informal Sector

The conceptual models (as contained in Figures 2. 1, 2. 2, 2. 3 and Table 2. 1) of marketing of formal manufacturing sector were used for purpose of comparisons. A conceptual framework for the informal marketing system has been developed on the basis of information obtained from the primary sources; such framework was available in the extant literature.

The study indicates that though some similarities exist, the informal marketing system is different from that of its formal counterpart. Thus the hypothesis (Ho-5) that *the marketing system prevailing in the informal sector is totally different from that of the formal sector* can be accepted to a large extent.

Similarities with the Formal Sector

The similarities of the informal marketing system with that of the formal marketing system are summarized as:

- a. The actions of the firm is directed towards the market.
- b. The customers dictate prices.
- c. The competitors' presence is given due consideration. Competition is both from the formal as well as from the informal sector.
- d. Financing plays a vital transpermeating role.
- e. Inventory management is crucial to the survival of the business.
- f. Retailing plays a vital role as first degree forward channel member.
- g. Export potential is considered as the future growth center.
- h. The concept of co-marketing is prevalent.
- i. Product innovation and quality consciousness are given due importance.
- j. Sales performance function is the sum of the firms market share and the firms' actions.
- k. The marketing environment dictates the marketing system.

Unique Features of the Informal Marketing System

The unique features of the informal marketing system are summarized as follows:

- a. Although the sales response function comprises of the firms market share and the firms action, it is to a greater extent dependent on the formal sector which dictates terms during price setting.
- b. Formal marketing research is totally absent.
- c. Information flow is two way, but they are provided information by the formal sector as and when required.
- d. No pull type of promotional efforts exist.
- e. A short production cycle caused by financial constraint limits the profitability.
- f. Hand-to-mouth (like JIT) inventory management is practiced due to financial constraint.
- g. The growth of the informal sector is by and large circumscribed by the caprices of the regulatory bodies and the formal sector competitors.
- h. Due to their dependence on the formal sector marketing forces they usually don't pursue an independent pricing policy.
- i. Export activities exist in a few cases through sub-contracting.
- j. Financing from the formal sector is very limited.

- k. Training and human resource development is limited to production personnel, which too is hereditary in nature.
- l. Most of the employees have multiple employment.
- m. Credit sale is the practice, which further worsens the financial status of the business.
- n. Joint marketing efforts with informal sector competitors are undertaken.
- o. The market for the informal manufacturers is much wider compared to the formal sector. The market stretches from individuals, households, informal firms, cottage industries, cooperatives, large manufacturers, retailers, whole-sellers, etc.
- p. They do not operate within the legal framework of the labor market; employees are generally exploited.
- q. They have the ability to produce high quality products; they often produce for the formal units on subcontracting.
- r. Marketing activities are limited. Marketing accounts for around 10 percent of the total budget. Age-old product concept is still prevalent.
- s. Almost 100 percent of the human resource are involved with production function. They of course do other activities as and when assigned. Functionalization of expertise is not as yet developed.
- t. No formal planning process is found to exist.
- u. Production centers are mostly rented and temporary in nature. However, the operation continues with change in the physical location. This is also due to financial constraint.

The above results indicate that the sector has a tremendous scope of introducing modern marketing techniques and tools. Thus the hypothesis (Ho-9) that *scope for introducing modern marketing techniques and tools exists within the framework of informality* can be considered valid.

CHAPTER IX : DISCUSSION AND CONCLUSION

Introduction

This study was initiated in order to understand and identify the marketing system prevailing in the informal sector. A comprehensive study has been done with an objective to unveil the marketing practices and system prevailing in the informal manufacturing sector, especially in the context of Bangladesh.

This chapter is organized to include the following sections:

1. Analysis of the findings in terms of modification/improvement of models developed in the conceptual part of the research and in terms of conceptualizing new models for informal marketing system,
2. outlining the future implication of the informal manufacturing sector in the global and Bangladesh perspective,
3. utilizing the strengths and weaknesses of the research, and
4. Research agenda for future.

Overview of the Study

The research issue is centered around marketing orientation of the informal manufacturing sector. A clear-cut knowledge regarding the marketing orientation is not available in the extant literature, although marketing activities and practices of the informal sector have been observed over the years. Thus, an attempt has been made to study both the traditional 4 Ps of marketing as well as the transpermeating activities such as general administration, financing, etc.

Past research indicates that a distinct difference between the formal and informal sector exists at different functional levels. Therefore, an attempt has been made to conceptualize the relationship between the formal and the informal manufacturing sector with special emphasis on marketing.

The study also made an attempt to understand the factors contributing to the mode of operation in general and identify various macro and micro environmental steps to improve the overall marketing functions of the informal manufacturing sector. Scope for improvement of the present marketing system has also been addressed.

Detailed literature survey was undertaken to understand both the formal and the informal marketing system. The literature survey was undertaken to serve two major purposes; first, to develop the definition of informal sector, and second, identification and development of conceptual models relevant to the marketing activities of the informal manufacturing sector.

Empirical study (cross sectional type) was conducted covering selected locations within the geographical limits of Dhaka Metropolitan Area. The sampling technique used was primarily systematic random. The actual sample size was determined taking into consideration the uncertainty factor prevailing in the sector. Information was collected directly from the units using afore-designed and pre-tested questionnaire.

The analytical framework has taken the support of some statistical tests such as, correlation analysis, cluster analysis, average deviation, etc., to assess the significance of the results. However, the overall attention has been placed on inductive-deductive reasoning based on the philosophy of logical empiricism.

Analysis of the Findings

The analysis of the findings has been directed to seven conceptual models developed on the basis of literature review. The results indicate that the conceptual models developed require change. As stated earlier the models have been described so as to see how these are structured around the informal marketing system.

Definition of the Informal Manufacturing Sector

The definitional framework developed (please see page 91) based on secondary research requires modification. Results indicate that the manufacturing sector should incorporate

separate sets of elemental characteristics. The definition of the informal sector based on the primary survey is thus:

“It is that part of the economy which is primarily considered as an household activity and is characterized by tax evasion. The units have limited operating capital and are devoid of any pricing policy characterizing limited growth and cash transactions. The management system of the enterprises are personalized in nature with small number of employees having low wages or salary and no fixed working hours. The system comprises of short production cycle having high productivity of labor”.

The definition indicates that only two elements of the earlier definition is found to exist in the new definition. They are the element of the informal manufacturing sector being an household activity and the characteristic of limited growth.

The Legal Environment of the Informal manufacturing Sector

The study indicates that the framework of the legal environment of the informal sector (as shown in Figure 6.2) developed through literature survey which represents the overall informal economy requires modification (Chart 9.1) at the empirical level. The empirical study suggests the following changes in terms of inclusion and exclusion of some elemental characteristics.

Chart 9.1 : Modifications of Elemental Characteristics

<p><i>Include :</i></p> <ol style="list-style-type: none"> 1. Contributes to GDP, 2. Contributes to skill development, 3. no pricing policy, 4. involves only cash transaction, 5. labors are exploited and 6. tax evasion is prevalent. 	<p><i>Exclude:</i></p> <ol style="list-style-type: none"> 1. Self gain is the major concern, 2. Super normal profits prevail, 3. Anti-social activity and 4. Black money dependent.
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Thus, the model revised in the light of the findings of the primary survey is presented in Figure 9. 1. The model indicates that though the elements have changed, however, the classification of legality i.e. legal environment, semi-legal environment, and illegal environment remains unchanged.

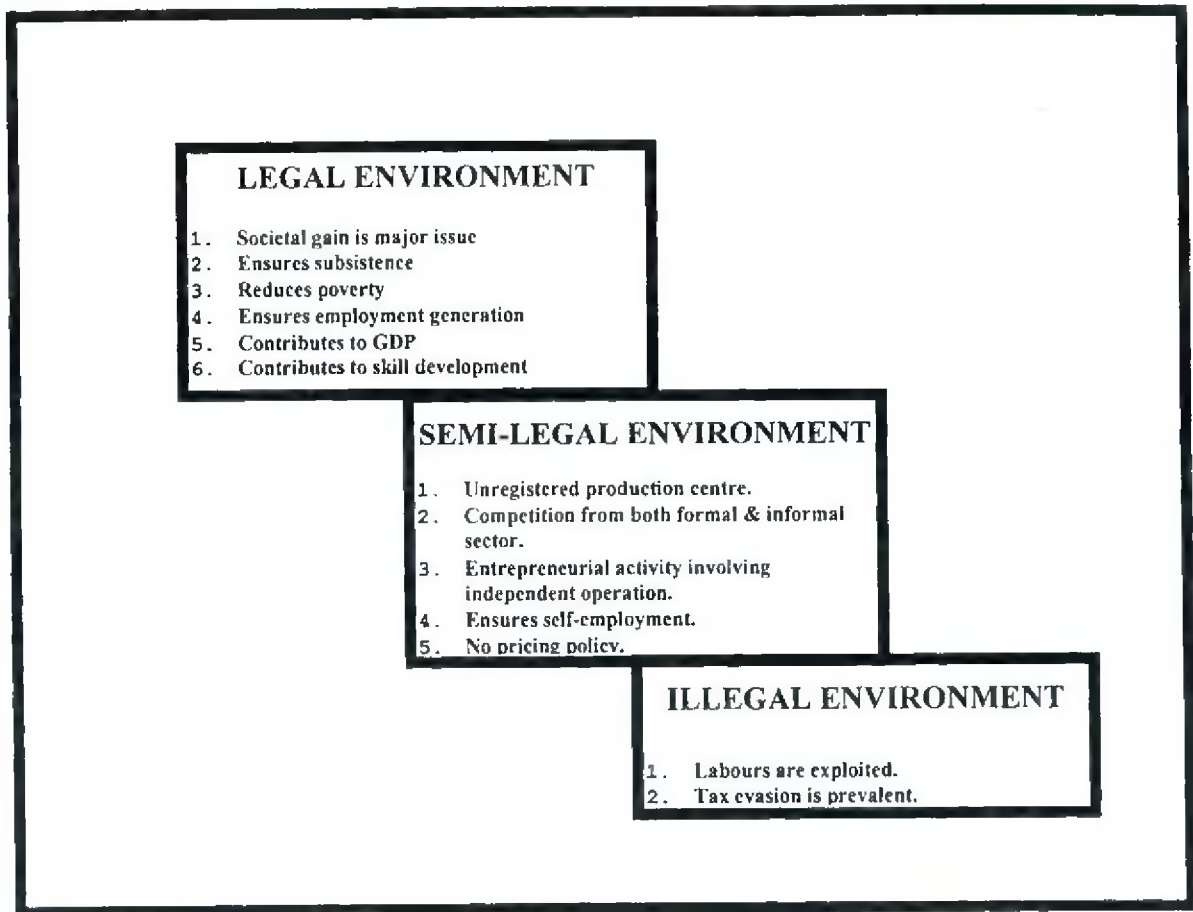


Figure 9. 1 : Legal Environment of the Informal Sector

Conceptual Framework of Management Functions

The conceptual framework of the management function (as shown in Figure 6.3) outlined on the basis of the secondary survey data also requires some modifications because the empirical model emphasizes more on production function as reflected in the newly induced dimensions. The new dimensions along with the one excluded are presented in Chart 9.2.

Chart 9.2 : Changed Dimensions of Management Functions

<i>Include :</i>	<i>Exclude :</i>
<ol style="list-style-type: none">1. No inventory management,2. Limited life of production,3. Scarce raw material,4. Average quality of products,5. Limited branding,6. Self financing,7. Limited formal external financing,8. Retail marketing dependent,9. Multiple channel,10. Credit or cash trade,11. Limited export marketing, and12. No promotion policy.	<ol style="list-style-type: none">1. Poor quality of products,2. no external financing or help,3. dual channel and4. cash or barter trade.

The revised model of the informal sector management functions is presented in Figure

9.2.

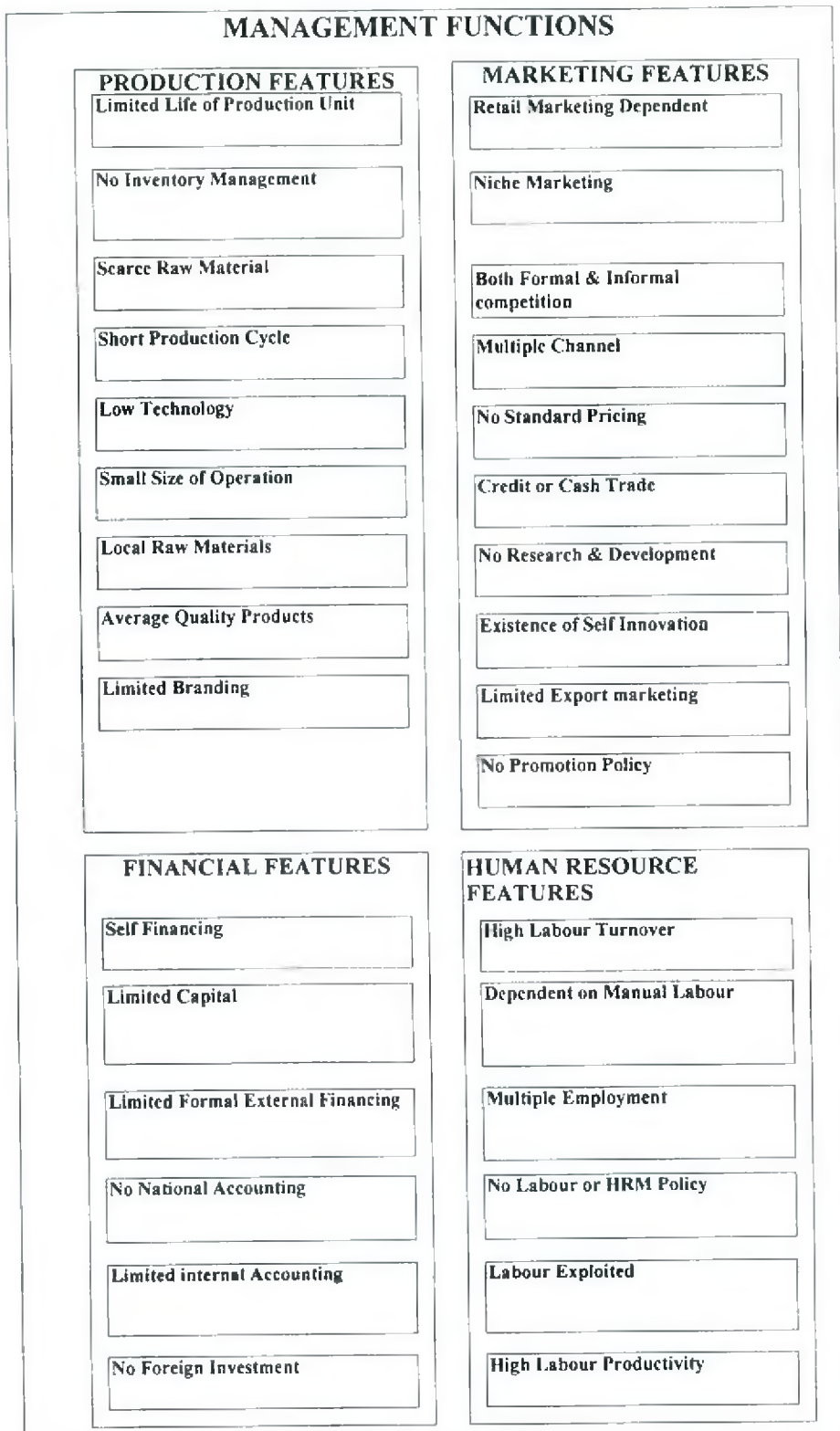


Figure 9. 2 : Conceptual Framework of Management Functions in Informal Manufacturing Sector

Backward & Forward Linkage

The empirically validated model of Backward & Forward Linkage is presented in Figure 9.3. A very little change was observed in the backward and forward linkage issue. This becomes clear if Figure 9.3 is put in juxtaposition to Figure 6.4 which represents the model at the conceptual stage. The data from secondary and primary sources do not reflect significant difference. The only significant difference was in quadrant three where the forward linkage with the whole-sellers was also observed. The other difference was in terms of the degree of presence of individual vendors.

The model however strengthens the argument that the two sectors are dependent on each other, and at times it is difficult to distinguish one from the other. Furthermore the presence of whole sellers at the forward linkage level shows that the informal sector is capable of producing in large quantities and thus could be considered a threat for the formal sector.

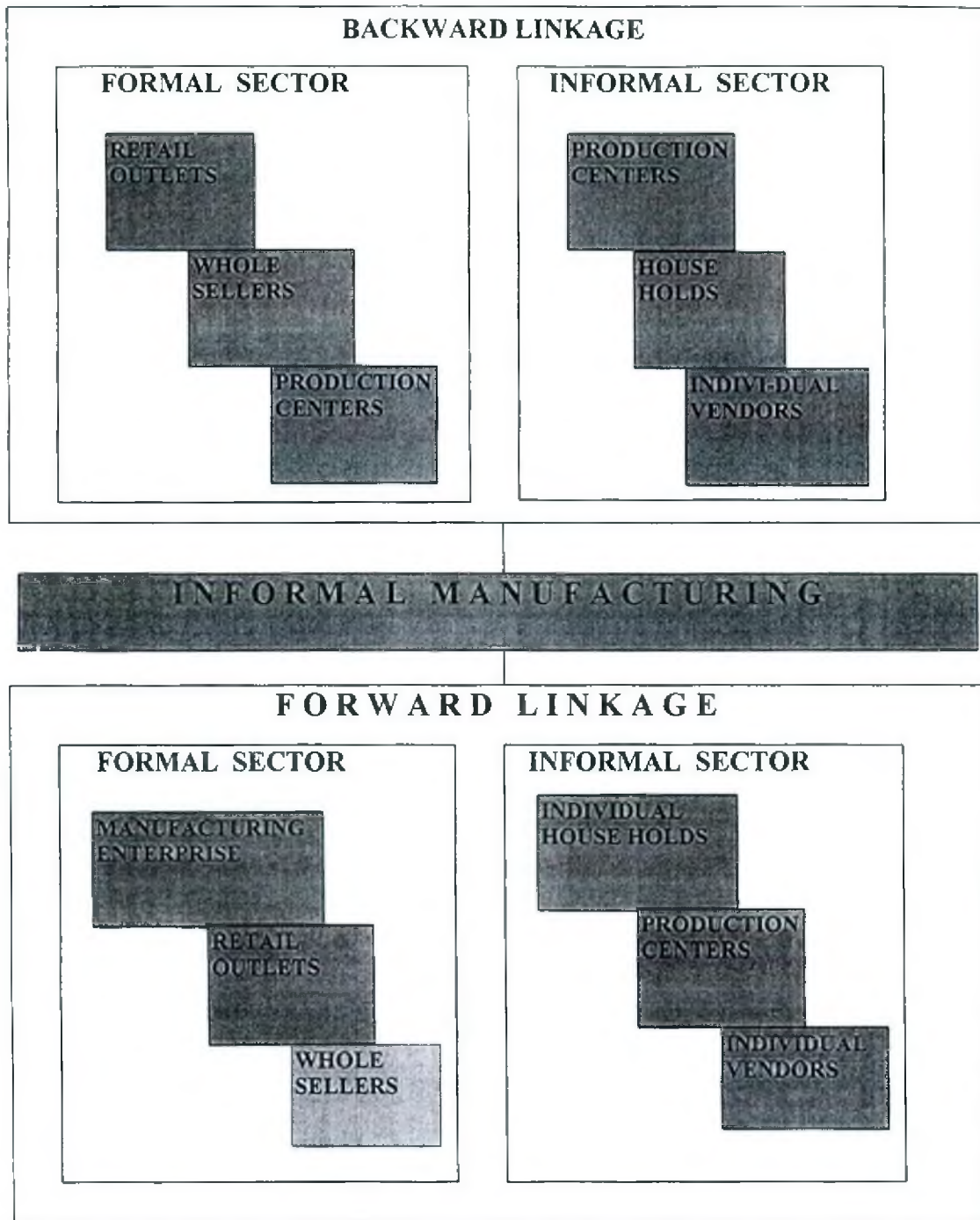


Figure 9.3 : The Conceptual Model of First Degree Backward and Forward Linkage of the Informal Manufacturing Sector.

With regard to the continuum, however, four major changes were observed at the empirical level. The changes are depicted in Chart 9.3. The model after inclusion of the changes is presented in Figure 9.4. The changes in Figure 9.4 becomes obvious when read with Figure 6.5.

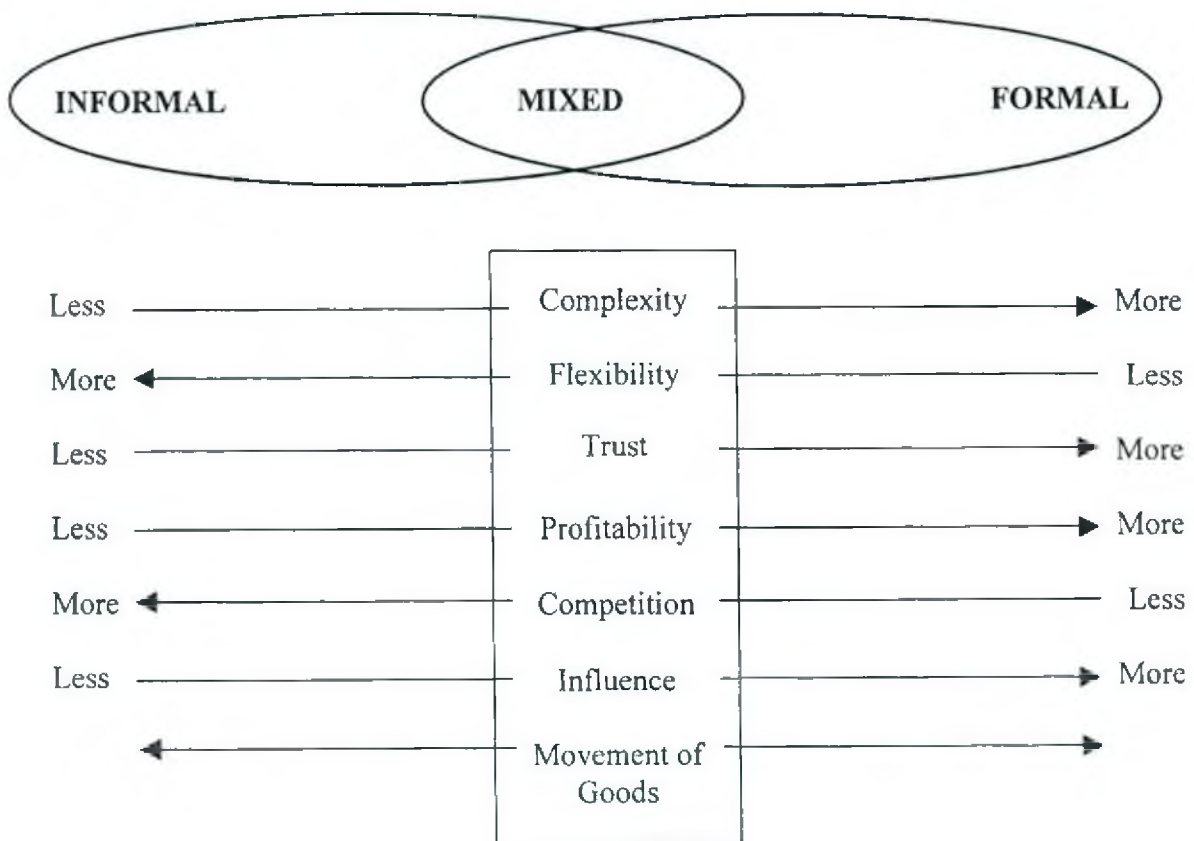


Figure 9.4 : The Continuum of Formal Informal Manufacturing Linkage

Chart 9.3 : Changes in Formal Informal Manufacturing Linkage

1. *The direction of trust has changed, showing higher trust level in the formal sector.*
2. *The factor of competition does exist showing a high level of competition prevailing in the informal sector.*
3. *Profitability as a dimension has been observed and logically it was placed high on the formal direction at the continuum.*
4. *Also the dimension in terms of influence on trade linkage has been surfaced and is tilted towards formal anchor of the continuum.*

The Marketing Functions & Activities

The marketing functions and activities undertaken by the sample informal manufacturing sector are structured in modular form and depicted in the Figure 9. 5. It is clear from the model that there is a distinct difference between the general model (formal) as contained in Figure 2.1 and the one prevalent in the informal manufacturing sector. Two major points need to be noted:

1. the absence of any sort of research activity in the informal sector, and
2. the influence of production function on marketing activities. This is primarily due to the overriding importance of craftsmanship or, associated to 'product concept', and the affordability of the producers for a 'pull' type of promotional strategy.

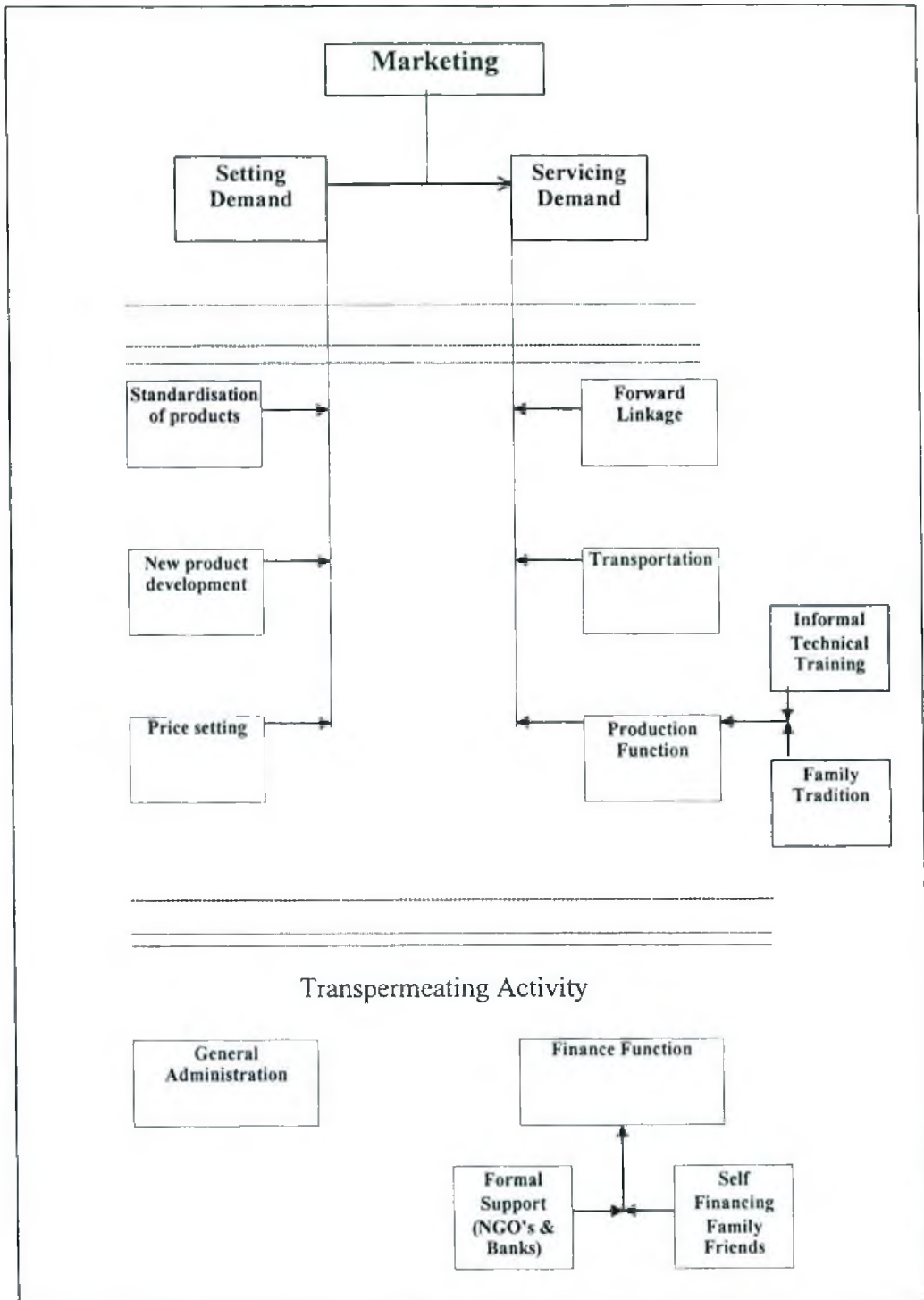


Figure 9. 5 : Marketing Functions of Informal Manufacturing Sector

The Marketing System

As the focus of this study is centered around the marketing system of the informal manufacturing sector, discussion largely is directed towards the marketing system. Two separate models have been used to describe the marketing system prevalent in the informal manufacturing sector.

The simple marketing system (Figure 9. 6) shows that marketing input of the informal manufacturing sector comprises of efforts of both individual firms and the cooperatives of the units.

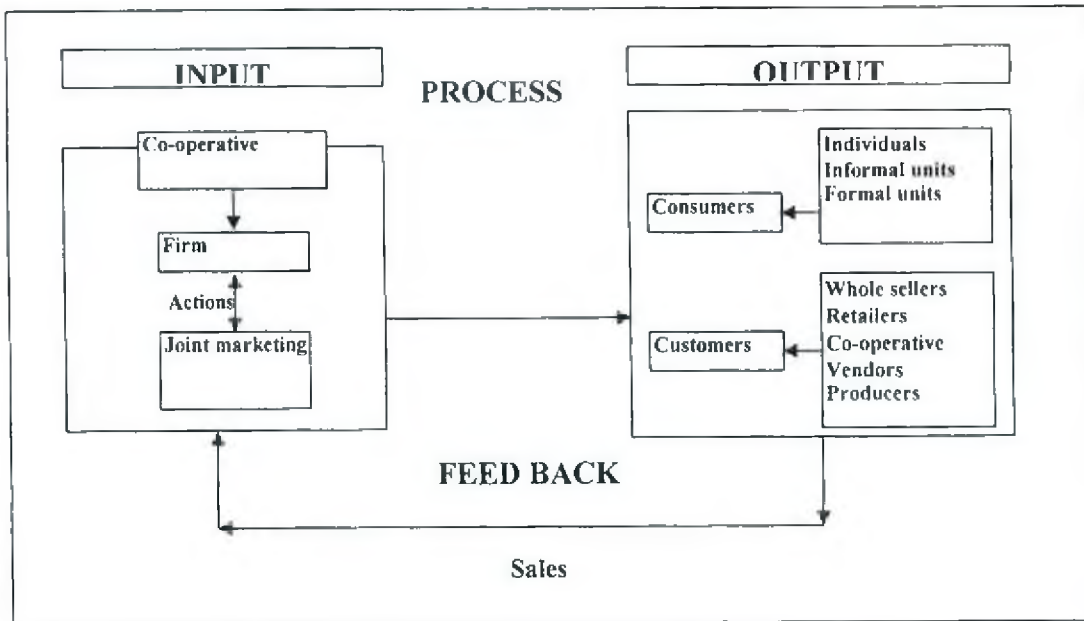


Figure 9. 6 : A Simple Marketing System of Informal Sector

The combined effort is translated into action directed towards consumers or customers. The consumers are both institutional and individuals. The customers under special circumstances may become the consumers. This happens when formal sector manufacturers who usually are customers of the informal sector manufacturers purchase goods as promotional materials for the formal sector firm or for the purpose of office use. In addition the direct competitors may also be the customers in some situations. This takes place when the competitors fall short of production and thus subcontract the order to their competitors. It is also observed that a substantial amount of transaction takes place in the form of raw material purchase and repurchase. The simple marketing system is thus distinctly different from the simple marketing system of the formal sector conceptualized by Kotler (Figure 2.2). The simple marketing system at the formal level is less complex in the sense that all activities are centered within the firm following a formal marketing plan, while in the informal system joint effort of various firms plays a vital role in the overall marketing system.

Based on this simple marketing system of the informal manufacturing sector, the basic marketing system of the informal manufacturing sector (Figure 9.7) is conceptualized. The basic marketing system primarily depicts the model showing the fulfillment of demand by the firms. It shows both the internal as well as the external forces influencing the demand function.

The basic marketing system also addresses the sales response function, which explains the competition within the informal sector resulting in market share of the firm and the firm's action. The firms' action comprises of the forces, which may work as inhibitors as well as supporters.

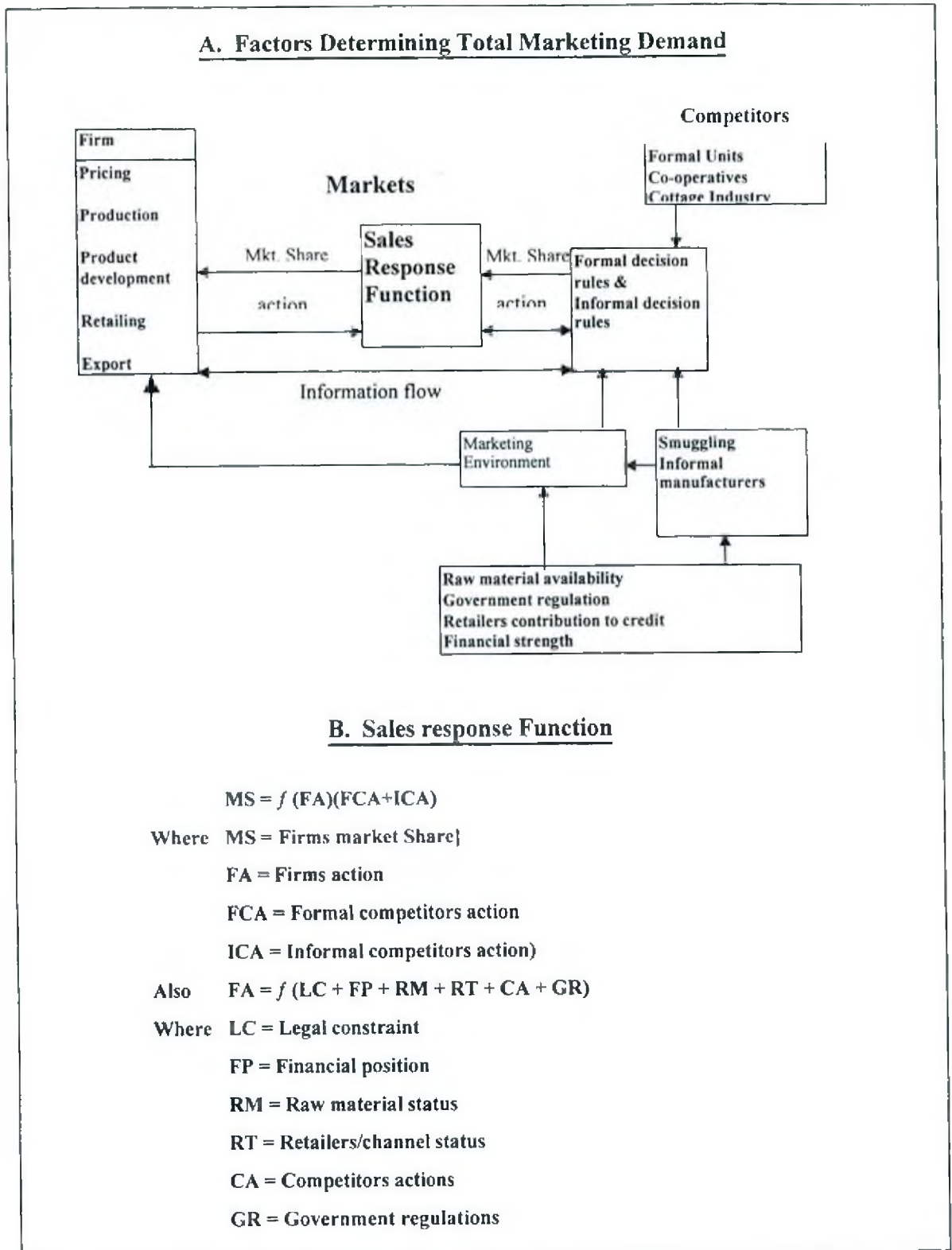


Figure 9. 7 : Basic Marketing System of Informal Manufacturing Sector

It is clear that the marketing systems of the informal manufacturing sector is distinctly different from the formal marketing system developed by Parsons and Schultz (Figure 2.3). The difference is prevalent at both categories of the basic system. For example in the informal system both formal as well as the informal system plays a role in determining the 'total market demand' while in case of the formal system the informal system does not play any role. While assessing the 'sales response function', the market share to a great extent is dependent on the market share of the formal sector. In addition the firm's action at the informal level is greatly influenced by the illegal status of the firm, which causes the formal sector to take advantage from them. Furthermore, due to financial constraints the firm fails to operate smoothly because of raw material shortage.

Implication of the Informal Sector

The implication of informal manufacturing sector in Bangladesh needs a careful analysis. Two issues were considered. The first dealt with the general perception regarding the future potential and the second was related to the action required to strengthen the informal manufacturing sector.

Perception of Informal Sector

The future of informal manufacturing sector in Bangladesh is perceived to be prosperous by the manufacturers of both the formal and informal sectors (see data in Table 9.

1). The data indicates that the informal manufacturers are more optimistic regarding the future prospects than informal manufacturers. Majority of the informal manufacturers see a better prospect and as high as 96 percent of the respondents intend to continue their business.

Table 9.1 : Perception Regarding Future of Informal Sector (in percentage)

Response	V. Good		Fair	Bad	V. Bad	Will Continue	Will Not Continue
Formal	22.22	51.85	18.52	7.41	0.00	0.00	0.00
Informal	13.82	36.91	41.46	6.99	0.81	96.09	3.90

The empirical data suggest that the average life of the informal manufacturers is approximately five years. On the other hand, the sheer number of the informal manufacturers has continued to increase over time. Thus, it suggests that probably the entrepreneurs vacate their operation for others and move up to a more profitable venture. The fact that it pays both in the short as well as the long term is clear.

Suggestions for Sustenance of the Informal Sector

A number of suggestion have been put forward for the overall development and sustenance of the informal manufacturing sector. Most of these suggestions originated from the cues volunteered by the sample informal units. Table 9.2 provides the suggestions in detail.

It seems from the suggested reasons outlined in Table 9.2 that the informal sector wants the external sources to come to their help and most of them ask for assistance from the formal sector. At the same time they want to keep their informal identity for obvious reasons of avoiding tax other regulatory measures. Eventually if the government agencies and the NGOs help the informal sector, this sector will not remain insulated and thus will no more be outside the purview of social and legal controls. In the process, they will gradually lose their informal identity.

Table 9.2 : Suggestions for Sustenance of the Informal Sector

Sr. No.	Suggested Measure	Should be Implemented by
1.	Provide soft loan without collateral and low interest rates.	Government, NGO
2.	Exclusive trade outlets.	Bangladesh Small & Cottage Industries Cooperation (BSCIC)
3.	Availability of quality raw materials.	Government
4.	Control on fluctuating prices.	Government
5.	Training on technical skill development.	BSCIC
6.	Training on management skill development.	Educational Institutions
7.	Formation of co-operatives.	Trade Associations
8.	Open air markets	Local Government Bodies.
9.	Export promotion and export incentives.	Export Promotion Bureau (EPB)
10.	Special publicity campaign to promote this sector.	Mass Media
11.	Reducing harassment from the controlling agencies.	Government
12.	Development of production unit.	BSCIC
13.	Product branding	Government
14.	Providing a legal status	Government, Formal Sector

In order to improve their marketing system the informal sector will seek help from formal sector on a large scale. This is bound to happen due to the prevalent dependence on the formal sector. However, they may not opt voluntarily for formal regulation and control since this will force them out of competition. It is due their informal nature that they are presently being able to offer competitive price.

Implications of the Sector

The findings of the study put emphasis in the direction towards symbiotic marketing (Adler Lee 1966). At the initiation stage the researcher could not conceptualize the existence of symbiotic relationship in the informal marketing system. But the empirical data suggested the presence of some symbiotic element in the informal marketing system. However, symbiotic relationship as envisaged by Alder is different from what has been found in this study.

Alder identified various methods or modes of symbiotic marketing extending from Franchising, Licensing, Joint Product Offering, Joint Sales Organizations, Production Partnerships, Joint Customer Service, Mergers and Acquisitions. For marketing operations Alder defined symbiotic marketing as, **“The alliance of resources or programs between two or more independent organizations, designed to improve the marketing potential of each.”**

The study indicates that for the informal sector use of symbiotic marketing could be a more beneficial strategy. However, a number of measures must be taken to ensure that the relationship between the partners does not falter (Bucklin and Sengupta 1993). The relationship among the different measures of symbiotic relationship is depicted in Figure 9. 8.

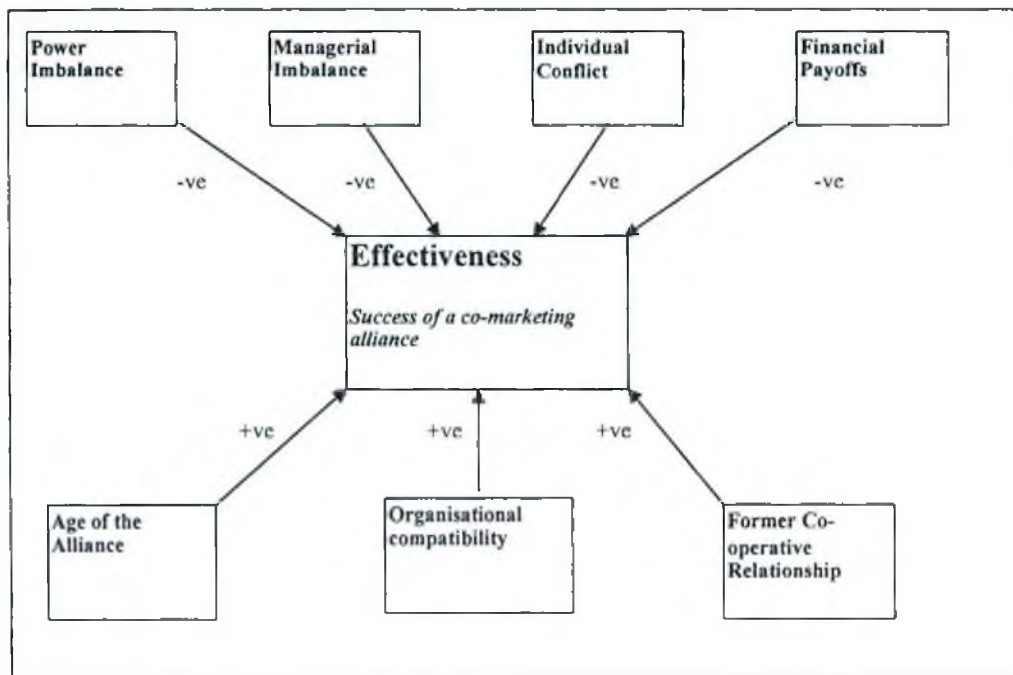


Figure 9. 8 : Relationship in Symbiotic Alliance

The effect of the various implications of the findings is discussed hereunder.

1. The study findings supports that the informal manufacturers are non-perceptive to the changes in the marketing environment as no marketing research exists in the system. Most of them still consider distribution and product to be the major feature of marketing, and

product quality is the ultimate determinant of marketing success. Thus, to implement the marketing strategy one needs to integrate the marketing activities of all through cooperative partnership. Only such innovation can help them survive in a dynamic marketplace.

2. Inter-organizational cooperation is not a new concept and is also presently being practiced in the informal sector. What requires to be done is to re-engineer the present cooperative scheme. Here both the academic institution as well as the government and the NGOs will have to play a supportive role in promoting inter-sectoral cooperation. Bangladesh Small and Cottage Industries Corporation (BSCIC), Association of Developing agencies in Bangladesh (ADAB), Bangladesh Management Development Center (BMDC), Export Promotion Bureau (EPB) and the Institute of Business Administration (IBA) can take a pioneering role as the third part agents in creating framework for such partnership arrangements. These organizations can adopt social advertising, publicity campaign, and can even develop the overall marketing strategy for both local as well as the export market.

3. The conceptual framework of symbiotic marketing clearly shows that it can be made operational if proper care is taken with regard to the negative impacts. The agreement has to be clarified to the partners by third party agencies such as BSCIC or ADAB. The participating firms may have to decide regarding the nature of partnership and the degree of cooperation. Once the dimension is set and an arbitrator formed, conflicts can be minimized.

4. It is obvious that the operational perspective of the symbiotic relationship will require extensive training of the partners. This is where the academic institutions can play a vital role. Thus, the need for an expeditious dissemination of the conceptual knowledge and the method of implementing the concept should be done under the guidance of the academics.

5. The study also provides some specific directions in implementing the strategy. The results indicate that the symbiotic relationship will also address the issue of a marketplace. Thus the marketplace will dictate the relationship amongst the participating firms. Thus if a marketing activity is given, the desired marketplace relationship can be identified. Similarly, if the marketplace relationship is given, the marketing activities can be identified. The marketplace can be used for both purchases as well as selling of finished goods. To achieve this objective cooperation from the various units of local administration of the country will be required.

6. The symbiotic relationship will also provide the informal sector with enough marketing power to have a fair competition with the formal sector. However, similar power imbalance may come into play from within the partners. This implication suggests that the informal sector firms should be concerned more with the intention and ability of the powerful partner to take advantage of the imbalance situation. Thus the partners should try to restrain the intention of the dominating firm to take advantage of the imbalance power situation.

7. The symbiotic approach will work if during the initial stage a strong coordinating body is at work and can track the partners with motivation and direction. In the long run when the system will be effective and the partners will find definite direction, the units will be able to run the system on their own. However, the system may need a provision for arbitration for a constant check and balance.

Strengths and Weaknesses of the Research

As it is true with all research, this study has definite strengths. However, it also suffers from some limitations that need to be highlighted for the future researchers to take note of when they plan to carry out studies in this area.

Strengths of the Research

1. The research covered the major informal manufacturing sector of the country. The findings of the three sub-sector under study indicate that they represent the informal manufacturing sector. This is a comprehensive study and as a result may be considered a bench mark one.
2. This study being a first enquiry into the marketing system of the informal sector, it provides a bench mark for further studies in this area.

3. The research indicates that the relationship that exists between the formal and the informal sector cannot be ignored and this plays a vital role for sustenance of the informal sector. In reality they are part of the same continuum.

4. A definitional framework of the informal sector using a unique methodology has been developed which may be used in addressing several issues relevant to the informal sector. Relevant concepts include:
 - a. The study used a logical model to estimate population of the informal sector prior to selection of the sample.
 - b. The research opens a new horizon of academic discipline, which has a vast scope both for the developing, as well as for the developed world.
 - c. The research has developed several theoretical models which can be considered as the conceptual breakthrough for the informal manufacturing sector and may also be used as the starting point for future studies.

5. As a comprehensive study, it stretched beyond the marketing system. Partially, the study addressed some of the major management issues concerning the informal sector. Thus, it has highlighted some of the important policy issues that need to be addressed for sustaining growth of the informal sector.

6. The study has outlined a marketing system for the informal sector. The system may be adopted to suit specific situation. It will definitely yield positive benefits to the informal units in the long run.

Limitations of the Research

1. The study has covered urban manufacturing sector and thus the findings may be generalized across the sector. Further, the contribution of the manufacturing sector is limited compared to the non-manufacturing sector of the economy. The manufacturing sector contributes about 5 percent to GDP and in addition the rural sector comprises of 80 percent of the population.
2. As the enumeration was done through structured questionnaire the respondents might not have been able to understand the technicality of some of the questions. Moreover, the information may not be totally free of informant bias. During the field operation it was observed that the respondents faced difficulty in understanding the scales and as such the concept had to outlined using examples.
3. This is essentially an inductive research, mostly qualitative analysis and evaluations were performed. Thus, a second set of study may be required to validate the models outlined in this study. The study has raised a number of issues for future research.

Research Agenda for Future

1. As the contribution to GDP is one of the important parameters of economic development and as the existing models cannot measure the GDP contribution of the informal sector due to the very nature of the sector, it is essential to develop a system for quantitative measurement of the contribution of the informal sector to the GDP of a nation.
2. Similar studies may also be undertaken for the non-manufacturing sector to see the commonality and differences that might exist. The study may surface the reasons why these two sectors should be treated differently.
3. Cross-cultural studies may surface the differences existing in various cultures, which if included may enrich the literature on informal manufacturing economy and help develop a comprehensive model addressing the unique features in each culture.
4. Studies concerning the concept of partners in symbiotic marketing may be undertaken to assess the degree of effectiveness of the symbiotic marketing system in relation to the informal sector. This will also aid in better understanding of both informal-formal relationship as well as relationship within the informal economy.

5. A longitudinal study to address the movement over time may be undertaken to assess the shift in the informal economy. Past research works indicate a growth in this sector, however, no comprehensive research addressing the reasons behind such growth has been undertaken.

6. Study to assess formal-informal Inter-face can be another area of research. The continuum of formal informal relationship indicates the possibility of such inter-face. Moreover, the distinct characteristics and advantages associated with the two sectors emphasize.

7. An action research may be done to see changes in the selected units from a micro perspective. Such study may help develop insights with the dynamics of changes that take place in an informal manufacturing outfit.

APPENDICES

APPENDIX I

Translation of the Questionnaire

DATA COLLECTION INSTRUMENT

Survey of Informal Manufacturing Sector

Center :

Product Type

Plastic

Shoe

Leather Goods

Serial No

FI Name

Date of Interview

FS Name

Supervisor's Remarks

FC Name

Controllers Remark

	Accompanied			Back checked			Scrutinized			
	FS	FC	Man	FS	FC	Man	FS	FC	Man	Desk
Personal Code										
Date										
Sign.										

Introduction

This survey intends to study the marketing system prevailing in the informal manufacturing sector of Bangladesh. The information collected will be exclusively used for research purpose and will be considered strictly confidential. There is no right or wrong answer. Please provide authentic and accurate answers and be as specific as possible.

I. General Information of the Respondent/Owner(s)

1. Please tick the appropriate box indicating status of the owner(s):

Owner Manager Owner Producer Owner Employee

2. Name of the respondent:

(valid if more than one owner exists or if the owner does not play a part in the day to day functions of the organization)

3. Sex of the respondent *(pls. tick)*:

Male Female

4. Designation of the respondent:

(if other than owner)

5. Academic Qualification:

(if the respondent has an equivalent level of education please indicate the level in terms of the options provided below by giving a tick in the appropriate box)

No schooling	Primary	Secondary
High School	College	University
Diploma	Short Training	Others

6. Approximate age:

13-18 19-25 26-30 31-35 36-40 41-45 45-50 > 50

7. How long are you in business?

(please indicate the total years of experience)

As Entrepreneur _____ As Employee _____

8. Please provide your total asset valuation *(indicate in appropriate unit)*:

a. Land	b. Building	c. Equipment	d. Furniture
e. Liquid Capital	f. Transport	g. Others (pls. specify)	

II. General Information on the Manufacturing Sector

1. Name *(if any)* and address of the organization:

2. Status of the organization *(pls. tick)*:

Registered Not registered

3. If registered, please indicate the name of the organization/ authority where the firm is enlisted:

4. What motivated you to start this business (*please tick*)?

- a. Financial status (good)
- b. Financial status (poor)
- c. Was at the beginning
- d. Past experience
- e. Friends
- f. Profitable
- g. No other options
- h. NGO/Govt. influence
- i. No specific reason
- j. Others (*pls. specify*)

5. Business started on:

(*please specify year*)

6. Status of premises (*pls. tick*):

Own Company Hired Lease Vacant land of govt./private Others
(*specify*)

7. If hired or leased status of contract (*Pls. tick*):

monthly Quarterly Half yearly annual

8. How many times did you move your premises during 1996?

- a. Times moved
- b. Reasons for moving

9a. Business expansion after initiation (*pls. tick*):

Yes No

9b. If yes, please specify the following:

Product Capacity Market Other

10. If no expansion occurred please specify three major reasons:

- a. Financial constraint
- b. Marketing
- c. Raw material
- d. Equipment
- e. Human resource
- f. Others

11. Nature of the present business.

Permanent

Temporary

Seasonal

12. Average daily Production:

(please provide monthly data. *RM = Raw material, FIN = Finished goods)

Product Category	Month	Daily Average	Capacity Utilized	Production Capacity	Inventory	
					RM*	FIN*

13. Total number of employees under each functional area:

(please identify in case of dual responsibility and relationship)

<u>Category</u>	<u>Number</u>	<u>Category (repeat)</u>
Production		
Marketing		
Finance		
Administration		
Purchase		
Packaging		
Others (pls. specify)		
Total		
Does not exist		

14. Have you received any loan/grant for setting up of your unit?

(if yes, please specify the source by putting a tick in the appropriate box)

Self Partner Loan Others (Pls. specify)

If loan pls. answer or go to Q 17.

Bank NGO Friend Others

15. When did you receive the loan (the first loan and so on, and what was the amount and present repayment status)?

<u>Serial</u>	<u>Time</u>	<u>Amount</u>	<u>% Repaid</u>	<u>% Outstanding</u>
01				
02				
03				
05				

16. How was the loan utilized (pls. specify the areas)?

17. Did you receive any technical support for the business?

(if yes, please identify the source and type of support received and payment mode, if any)

<u>Source</u>	<u>Type</u>	<u>Payment mode</u>
---------------	-------------	---------------------

18. Are you satisfied with your present operation?

(the way currently operating; pls. tick)

Use five point scale (5 not satisfied at all)

- a. Production
- b. Marketing
- c. Raw materials
- d. Human resource
- e. Finance
- f. Others

19. What according to you are your major strengths (please indicate three in order of preference)?

- a.
- b.
- c.

20. What according to you are your major Weakness (indicate three)?

- a.
- b.
- c.

21. What is your plan to face the problems identified above (pls. specify)?

- a.
- b.
- c.
- d.
- e.
- f.

22. What according to you is the prospect of this business in Bangladesh (pls. tick)?

V.Good Good Fair Poor V.Poor

23. Do you plan to continue your present business (Pls. specify the reason why)?

Yes (Reason) _____

No (Reason) _____

24. The following are some of the determinants of legal activity, based on the scale provided please indicate the strength of your legal status for each of the mentioned determinants.

Highly Agree I----I----I----I Highly Disagree

5 4 3 2 1

Sr.	Determinants	
a	An house hold activity	I----I----I----I 5 4 3 2 1
b	Has low technology base	
c	Few numbers of employees	
d	Low level of competition	
e	Characterizes niche marketing	
f	Follows specialized distribution system	
g	Transaction is mostly in cash	
h	Produces low quality products	
i	No standardized pricing policy	
j	Labor productivity is very high	
k	Comprises of short production cycle	
l	Activity is associated with barter trade	
m	Personalized management approach	
n	Characterized with limited growth	
o	Labor with low level of education	

- p No control by the government
- q Research and development activities are absent
- r Labor force is exploited
- s No external support
- t The labor force has dual employment status
- u No formalized regulations or practices
- v Based on limited capital
- w No link with the formal sector
- x Cooperative management system
- y Associated with tax evasion
- z Mentioned in the official statistics

25. Did any one from the government controlling agencies visit you? If yes who and how often(*pls. tick*)?

	Monthly	Quarterly	Yearly	Not Fixed	Never
VAT					
Income Tax					
License					
Bank					
BSCIC					
City Corporation					
WASA					
DESA					
Others					

26. Are you engaged in agricultural activity, if yes please specify?

27. If yes, what is the % share of profit between the two?

Agriculture	Present Business
-------------	------------------

III. Marketing Information

1. Indicate the level of importance you attach to each of the following functions in your business activities (*pls. tick the appropriate level*).

	Lowest					Highest
Production	1	2	3	4	5	
Finance	1	2	3	4	5	
Marketing	1	2	3	4	5	
Administration	1	2	3	4	5	
Purchase	1	2	3	4	5	
Others (<i>pls. specify</i>)	1	2	3	4	5	

2. Indicate the level of importance you attach to each of the following marketing activities in your business (*pls. tick the appropriate level*).

	Lowest					Highest
New product development	1	2	3	4	5	
Advertising	1	2	3	4	5	
Physical distribution	1	2	3	4	5	
Personal selling	1	2	3	4	5	
Channel promotion	1	2	3	4	5	
Sales force management	1	2	3	4	5	
Door-to-door selling	1	2	3	4	5	
Branding	1	2	3	4	5	
Pricing	1	2	3	4	5	
Quality Control	1	2	3	4	5	
Retailing	1	2	3	4	5	
Institutional selling	1	2	3	4	5	
Cost reduction	1	2	3	4	5	
Profit maximization	1	2	3	4	5	
Street Hawking	1	2	3	4	5	
Stocking	1	2	3	4	5	
Money collection	1	2	3	4	5	
Risk taking	1	2	3	4	5	
Merchandizing	1	2	3	4	5	
Standardization	1	2	3	4	5	
Others (<i>pls. specify</i>)	1	2	3	4	5	

3. For the methods of marketing outlined below, which one(s) do you follow in marketing your products (*pls. tick*)?

- a. We have a fixed distributor and do not employ any one else. In addition the distributor is responsible to sell the goods at whatever profit he can make from the proceeding (i.e. marketing is exclusively performed by the distributor).
- b. We have our own network of hawkers who perform the function. The hawkers visit selected or listed customer base. The list is updated on regular basis based on information provided by the field force.
- c. We have our own network of hawkers who perform the function. They visit various outlets or individual customers based on convenience.
- d. We have our own network of hawkers who perform the function. They have a fixed space in the market place or sit in the market place according to convenience and sell goods from there.
- e. We sell to other organizations/firms who undertake the marketing operation under there own brand name.
- f. We sell at retail level, which are ultimately responsible to sell the product. The retailers are selected on convenience.
- g. We sell at selected retail level. They have a special contract with us and place order as and when required.
- h. We are under contractual agreement with exclusive retail outlets, who place orders and with whom we work. We are under contractual obligation not to sell the goods to any one other than the exclusive outlets.
- i. We work with our competitors as far as distribution is concerned and sell the commodities jointly taking joint decisions.
- j. Any other (*kindly elaborate*)

4. Who are your major threat in the market (*pls. tick*)?

- Large enterprise
- Similar companies
- Cooperatives
- Cottage industries
- Others
- None

5. How do you consider each of the following as one of your major marketing problem (*pls. put the rate in the appropriate box*)? 1 to 5 scale (1 highly satisfactory)

- a. Are forced to sell products on credit.
- b. The intermediaries do not pay money on a regular basis.
- c. Sales-persons do not stay long. They leave this profession since it is either considered as less prospective or socially less acceptable.
- d. Production capacity is not adequate. Demand much higher the supply.
- e. Customers do not prefer to buy our products due to low quality perception.
- f. Due to lack of organized promotional effort we fail to sell our products.
- g. Due to shortage of manpower we fail to place our products at the right place at the right time.
- h. We have serious financial constraints. Thus we fail to produce goods due to lack of raw material.

- i. Production is constrained by fund shortage and regular flow of raw material cannot be guaranteed.
- j. We are subject to regular harassment by the inspectors from the regulatory bodies of the government.
- k. We are subject to regular harassment by the people representing the formal sector organizations.
- l. The formal sector organizations always take advantage of our lower bargaining power and thus we are forced to sell to them at lower prices.
- m. Our lower level of technology is a constraint to produce quality products.
- n. We cannot buy raw materials during low price seasons due to inadequate storage space.
- o. We have serious inventory problem and thus cannot maintain enough raw material stocks which causes immense hardship since we fail to meet the demand.
- p. Any other *(please elaborate)*

6. What percentage of your sales proceeds do you spend on marketing every month/year *(include selling, branding, credit incentive/loss, sales promotion, etc; and put a tick in the appropriate box)?*

- | | | |
|-----------|-----------|-----------|
| a. 0-10% | b. 11-15% | c. 16-20% |
| d. 21-25% | e. 26-45% | f. > 41% |

7. Please provide an approximate breakup of *(as a percentage of total sales proceed)* for the following *(pls. tick yes or no)*.

	yes	no	%
a. Commission	yes	no	%
b. Promotion	yes	no	%
c. Product development	yes	no	%
d. Sales force remuneration	yes	no	%
e. Distribution	yes	no	%
f. Inventory	yes	no	%
g. Raw material	yes	no	%

8. Are you presently sharing marketing facilities/activities with other competing firms *(pls. tick)*?

Yes No

9. If yes, which of the following do you share *(pls. tick in either yours, if your facilities are used by others or others, if you use others facilities)?*

	Owned by you	Owned by others	Both
a. Product development			
b. Promotion			
c. Distribution			
d. Inventory			
e. Retailing			
f. Raw material purchase			
g. Marketing Information			

13. Do you plan to increase your sales in future (*pls. tick*)?

Yes

No

Not sure

14. How do you plan to achieve your target (*pls. tick*)?

a. As the industry in general prospers we prosper

b. We intend to undertake aggressive selling effort

c. We plan to diversify/expand the market

d. We plan to bring in new products

e. We plan to form partnership with other firms

f. We plan to open up own outlets

g. We plan to expand with our forward linkage organization.

h. We are expecting help from some financial institution, we plan to develop our plan after getting the loan

i. We plan to pick up experienced work force

j. We are expecting export orders

k. Others (*pls. specify*)

15. If the answer is 'no' in question 13, why not (*pls. tick*)?

a. Lack of financial support

b. Lack of technical support

c. Lack of physical facilities

d. Dull market situation

e. Too busy with main job

f. Satisfied with present status

g. Don't want to take risk

h. Lack of proper manpower

i. Others (*pls. specify*)

16. Are you presently exporting your products (*pls. tick*)?

Yes

No

17. Do you supply directly to your foreign buyers (*pls. tick*)?

Yes

No

18. If yes, which countries do you supply to (*please arrange in order of importance*)?

a.

b.

c.

24 a., Which of the following do you, consider as the major problem areas while marketing your products?

- a. New product development
- b. Inventory
- c. Advertising
- d. Personal Selling
- e. Information System
- f. Pricing
- g. Distribution
- h. Product demand
- i. Production capacity
- j. Door to door selling
- k. Formal competition
- l. Legal constraints
- m. Technological constraints
- n. Others (*pls. specify*)

24 b. List the top three?

- 1st.
- 2nd.
- 3rd.

25. Do you think these problems could be solved (*pls. tick*)?

- | | | |
|-----|----|---------------------|
| Yes | No | Don't have any idea |
|-----|----|---------------------|

26. If yes, please identify the areas where you consider an opportunity for improvement (*answer in terms of your present resources for short term and long term perspective by putting a tick in the appropriate box*).

- | | Short Term | Long Term |
|-----------------------------------|------------|-----------|
| a. Product improvement | | |
| b. Market expansion | | |
| c. Collaboration | | |
| d. Exporting | | |
| e. Retailing | | |
| f. New product development | | |
| g. Others (<i>pls. specify</i>) | | |

27. Are you presently affiliated with any association or cooperative of your trade (*if yes skip to question 29*)?

- | | |
|-----|----|
| Yes | No |
|-----|----|

28. When was it formed?

29. How many members are presently part of the association?

30. When did you become a member of this association?

31 a. What benefit(s) have you received from this association by being its member (*pls. tick*)?

- a. Financial
- b. Technical
- c. Product development
- d. Processing
- e. Marketing
- f. Labor force
- g. Linkages
- h. Others (*pls. specify*)

31 b. If you have not received any benefit from the association why are you still a member?

32. Why are you not associated with such organization?

33. Please provide some suggestions for improvement in overall marketing effort of products made by organizations of your kind.

Name of the owner(s) & address:

THANK YOU

APPENDIX II

Determination of Size of Targeted Population

MATHEMATICAL FORMULATION FOR DEFINING UNIVERSE

The formulation is based on the equation derived by Gartner (1989), where he suggests that to undertake a research on an entrepreneurial activity an entrepreneurship should be defined based on the following equation :

$$E = f(e) \text{-----}(1)$$

Where E is entrepreneurship and e the entrepreneur.

In short, the most important thing is to distinctly identify the entrepreneur rather than the enterprise, since, it is the entrepreneur which matters. Therefore, though we are considering the enterprise for definition sake, the importance of the entrepreneur is not ignored. An entrepreneur is different from a manager of a formal setting as an individual having his own profile influencing the enterprise. It is him who changes his environmental profile while shifting from one trade to the other. Similarly, in case of the informal sector, it is the entrepreneur who represents the enterprise rather than a name or an organizational entity. Furthermore, the entrepreneurs can be of different types, resulting in various types of enterprise, which can be represented by the following equation :

$$E = \sum e_1 + e_2 + \dots + e_n \text{-----}(2)$$

Based on the argument that the informal sector enterprises do not exist as an entity by itself one must consider the entrepreneur rather than the enterprise. Thus the relationship between the informal sector enterprise and entrepreneurship can be visualized as one of being a function of the other.

Typology Based on Flow of Goods

For any systematic study requiring sampling it is essential to determine the universe parameter in terms of the total number of informal units present. The method followed in this article is based exclusively on the movement of goods, from the manufacturing floor through the intermediate buyers. Earlier research (Page 1979, Lubell 1991, Anwar and Grant 1994) indicates that goods from the informal sector reach both formal as well as informal buyers. For a specific product type this can be depicted using a process flow. The process is directly dependent on the possibility of outcome in an actual buying scenario.

The decision flow indicates that the retailers are the best starting point for initiating the listing process. This is because a comprehensive listing of the retail outlets in the formal setting is available. Furthermore it implies that informal manufacturing sector can be classified into three typologies, those selling exclusively to informal buyers, those selling to both formal and informal buyers, and those selling exclusively to formal buyers. Thus for any number of "I" the total number of individual units should be sum of listing obtained from the three typologies mentioned earlier. This can be depicted in the following equation as

$$I = \Sigma(i + b + f) \text{-----}(3)$$

- Where i = entrepreneurs selling to exclusive informal buyers
- b = entrepreneurs selling to both informal and formal buyers
- f = entrepreneurs selling to exclusive formal buyers

However, a comprehensive listing cannot be obtained from the above equation due to two basic reasons :

- a. At times it is difficult to differentiate between the exclusive formal suppliers and suppliers under both typology since the information at retail level may not be sufficient.
- b. Some of the informal manufacturers sell exclusively to informal outlets, which remains anonymous at the retail level due to the informal character of the buyer.

Thus listing obtained from the formal buyer level will help identify the formal and both typologies. Therefore we may write :

$$I' = \Sigma (f+ b) \text{-----}(4)$$

Where I' = Entrepreneurs listed in the formal buyer category.

Since the possibility of duplication in response obtained under the assumption outlined in equation (4) is highly likely, the process must take into account the elimination of such units.

The listing obtained from equation (4) is not complete, since it does not take into consideration the list prevailing in the informal buyer typology. However, once the list from equation (4) is outlined, it is possible to ascertain the ratio of exclusive formal and both formal typologies by undertaking a survey. This will essentially result in a probability of obtaining formal and both typologies from the identified sample.

$$\therefore (\alpha + \beta) = 1 \text{-----}(5)$$

Where α is the probability of occurrence of exclusive formal β is the probability of occurrence of both typology.

A second set of sample survey with an intention to ascertain exclusive informal and additional entrepreneurs not included in the listing due to mobility is essential. This will result in the identification of all the three typologies, i.e. a) exclusive informal, b) exclusive formal c) both.

Two methods may be employed to ensure valid response as visualized above. The first method involves using the list obtained in equation (4) to determine starting points and dispersion ratios according to geographical area. Once the starting points and the sample size based on the distribution and the confidence level to be achieved is determined, an actual survey based on systematic sampling will result in ascertaining of the probability of occurrence for each of the types identified above. This is based on the assumption that all three typologies should exist in a representative proportion. Thus we will get:

$$\Theta + \gamma = 1 \text{ -----(6)}$$

Where Θ is the probability of sample distribution of listed units while γ is the probability of occurrence of units not present in the list.

Thus the total population of interest can be written as :

$$I'' = I'/\Theta \text{ -----(7)}$$

Equation (7) does not take into account the element of migration. However, to be more accurate, the equation needs to be treated with a correction factor related to migration. Thus we can write

$$I = (I \pm m)I'/\Theta \text{ -----(8)}$$

where m is the migration factor which should be determined empirically.

The three typologies f , b , & i can be quantified in terms of the following expressions :

$$f = \alpha \Theta I \text{ -----(9)}$$

$$b = \beta \Theta I \text{ -----(10)}$$

and $i = \gamma I \text{ -----(11)}$

The value of this factor will depend on time, geographical area, economic activities, the nature of entrepreneurial activity, etc. Since the mobility factor in the informal setting is highly dynamic any predetermined relationship is expected to give wrong results. Therefore, it is suggested that this should be measured empirically. Thus it is evident from equation (9-11) that a population based on a specific sampling frame can be obtained both in terms of a specific typology as well as in terms of the total Informal sector.

APPENDIX III

Definitions of the Informal Sector

This annexure provides definitions and conceptual meanings related to the informal and other related sectors.

1. A Small Scale Enterprise is one, which employs less than 30 workers. It can be further classified into three categories "micro", those employing fewer than six workers, "very small", those employing six to nine, and "small", between 10 and 29 workers (Osei et.al., 1993).
2. A micro-enterprise is any business involved in manufacturing, service or trades employing 10 or less workers. In addition, such an enterprise has a maximum investment of about Tk.30,000 (\$1000). A firm having a total investment of more than this is considered to be a small, medium or large scale enterprise (Huq and Ahmed, 1989).
3. According to Awad and Goodle (1990), economic activities performed in the informal sector are heterogeneous. These include activities invisible spaces as well as those carried out within confines of the homestead. Both independent entrepreneur as well as the family or paid labor, piece rate worker are all part of the informal sector. In addition there exists a constant movement forward and backward between these different forms of activities.
4. Sarthi Acharya (1983) stresses that the informal sector concept may be divided primarily into two distinct parts : informal manufacturing and service sector and informal labor sector. He further identifies the following characteristics of the urban informal sector : i) small size of the unit, ii) non-corporate family type relationship or ownership, iii) relative low order technology, iv) technology being capital scarce it is surviving due to low wages, v) operating in highly competitive market, on the other hand it is possible that product development and modification is not practiced resulting in saturation, vi) no access to public facilities including credits, and vii) absence of wage regulations and work regulations.
5. Aldair (1986), analyzes the informal sector under three major branches of informal economy- a. non-market services and homework production, b. reciprocal re-distribution of non-cash benefits, and c. disguised labor compensated by cash.
6. At the conceptual level the informal sector may be defined as "including enterprises that have in common one major and dominant attribute, the absence of official status" (Amin, 1987).
7. Benenson 1984, defines the underground economy as one which is involved in the act of tax evasion.
8. Carson and Cromie (1990), while studying the marketing planning in the small enterprises, quote the definition provided by the Committee for Economic Development, which considers four major characteristics and states that at least two of these must be present for a small firm. The four characteristics are : a) Management of the firm is independent. Usually the managers are also the owners. b) Capital is supplied and an individual or a small group holds the ownership. c) The area of operation is mainly local, with the workers and owners living in one home community. However, the market need not be local. d) The relative size of the firm within its industry must be small when compared with the biggest units in the field. The measure can be in terms of sales volume, number of employees or other significant comparison.
9. Charnes (1990) supporting the ILO definition, considers the ease of entry to be one of the distinguishing feature of the informal sector.
10. Cottage and House Hold Industries are predominantly activities such as garment-makers, smiths, shoemakers, handicrafts, masons, carpentry, builders and various crop processing industries. They are closely related to agricultural production, as providers of rudimentary inputs to and of processing services for output from agriculture, and of the non-food needs of the rural population (Tambunan, 1993).
11. Cottage Industries are those which are located within the homestead and use family labor. The size of the enterprise being a measure of the number of employees, machinery and equipment, or value of capital (Ahmad, 1988).

12. Dam 1980, defines the Invisible Economy. He states that the Invisible Economy comprises of various types of income, which are not recorded anywhere in the national statistics.
13. Davies (1974), contends that the informal sector is one which fails to fulfil the conditions laid down by the formal sector. The author considers the informal sector to be negative.
14. Davies (1979) Emphasizing on a Marxist definition of informal economy emphasizes on structural relationship to the formal sector using Rhodesian example. According to him, the informal economy should be defined based on the following characteristics : i). ownership as the means of production, ii). barriers to entry, iii). monopolies, iv). price setting mechanisms, v). scale and production techniques, and vi). legal status.
15. Discussing the general characteristics of Nairobi's informal sector, House (1987), concludes that the informal sector can be divided into an intermediate sector and community of the poor.
16. Dow (1977) identifies the irregular economy as any work that is unrecorded and unmeasured by private or public monitoring agencies.
17. Feige (1979) defines the irregular economy as those economic activities that go unreported or are unmeasured by society's current techniques for monitoring economic activity.
18. Feige (1990), makes a new attempt to synthesize the traditional literature on the underground economy with De Soto's and Pork's liberal/Marxist analysis of informal economy in the third world. Outlines the conceptual framework of the new institutional economic approach and identifies the characteristics of "the illegal economy," "the unreported economy," and "informal economy" as the subclasses of the underground economy.
19. Ferman and Ferman (1973) defines informal economy as not registered by the economic measurements of society.
20. Ferman et. al.(1978) describes the informal economy as a phenomena which has developed a multi-disciplinary rather than interdisciplinary interest. He further states that what counts as an informal economic activity is featured by the wider system, which the research intends to look at. Thus the definitions are more of a working definitions rather than a general definition. The author suggests - "given that no general typology is available perhaps a methodology needs to be developed to assess one."
21. Frank and Jacques (1983), outlines the subterranean economy as that fragment of the economy that is camouflaged from the various data gathering government agencies and therefore missing from the various macroeconomic statistics. It can be characterized by both legal and illegal activities, both of which result from evasion of taxes.
22. Gary (1990) identifies some of the weaknesses embedded in the definition outlined by I.L.O. What appears to be free entry actually is not. At least a certain amount of skill is required to be able to survive in the informal sector. According to Gary, the informal sector consists of two distinct groups, which need to be conceptualized and analyzed separately. Some activities are easy entry and low wage, and the workers and enterprises in those activities are unrecognized and unprotected. People working in such activities tend to go out of them. Other activities have significant barriers to entry, higher capital or skill requirements, and fairly standardized labor policy or by-laws. People aspire to those activities.
23. Grey (1987), defines the informal economy in terms of income earning activities that overlooks official regulation and the constraints of labor legislation.
24. Hawkin (1984), describes the underground economy as 'disinter-mediation', explains- includes all attempts, both legal and illegal, to circumvent the complicated and cumbersome apparatus of the modern market economy, whether the motive is simple self-gain, the avoidance of a taxable transaction, or the skirting of bureaucratic regulations.
25. Houston (1987), while defining Underground Economy states: "it comprises that portion of economic activity that takes place where goods and services, legal or illegal, are produced but not reported." Its existence therefore results in: a) inequities in the tax system, b) higher than necessary tax rates and budget deficits, and c) misguided monetary and fiscal policies.
26. Hoyman (1987) defines informal economy as, work activities or economic transactions, paid or unpaid, that occur outside of the conventional market economy and are not regulated, mentioned, audited, or counted by any official agency in the society.
27. Income Generating Activity (IGAs) are those which have a short production cycle due to low capital, low output, but which have been sustained commercially over a long period of time and can be seen to contribute substantially to family budget (Anwar S F 1992).
28. Informal economy can be considered to be a generic term for the range of overlapping sub-economies that are not taken into account by formal measures of economic activity (Henry, 1987).

29. Joseph and Ferman (1987) outlines informal economic sector as quite different from that of the formal economy, specifically when considering the following components as an essential part of informal economy and quite non-prevalent in the formal economic sector: barter or the trade in goods not involving cash, moonlighting or off-the-book employment - work performed for wages that are not reported, volunteer work, criminal work activities such as smuggling and drug trafficking, and the social exchange of services. The term informal economy will differ from one country to the other and also in terms of the input to the different levels of income earning members of the society. In reality the size of the informal sector in dollar terms is much higher in the developed nations, while in terms of percentage of GDP it could be more in the third world country. In addition its participation in the labor market seems to be pretty much the same throughout.
30. Joshi et al(1976), defines the informal sector as one that includes economic activities that are carried on outside the scope of the laws and regulations governing the formal sector.
31. King (1990) in his article quotes Carl Liedholm and Donald Meads study "Small Scale Industries in Developing Countries : Empirical Evidence and Policy Implications", where they list nine basic characteristics of "elusive small scale industrial enterprise", these are : i) they provide the bulk of industrial employment; ii) they are principally located in rural areas; iii) they are not small but very small, with most of them employing fewer than five; iv) they are predominantly private, sole proprietorships, and often the proprietors are female; v) the workers are primarily proprietors and family members; vi) the average worker in small industry combines this with other activity; vii) the amount of capital required is modest, but capital entry barrier are not insignificant; viii) the bulk of funds for start-up or expansion are from family, not from banks or government; and ix) they are increasing in absolute terms, and at a faster rate than large scale industries.
32. Matterna (1985), identifies a long list of adjectives which has been applied to the activity known as the underground economy, these are : informal, irregular, week, hidden, shadow, parallel, and so forth. The author states that what all the terms refer to are transactions that are 'other', that do not conform to the rules set down by the state in its role as overseer of the economy. This economy is underground due to violation of tax laws, licensing requirements, labor standards, and other regulations that governments have established since the end of the age of laissez-faire. The author while talking about the second economy, identifies that, whereas in the west the point of going underground is to increase one's disposable income (or in case of an informal employer, to cut costs by evading taxes and paying sub-standard wages), the Soviet second economy is first and foremost concerned with the problem of supply. It provides goods and services, cost is not central here and prices can be very high, since the goods may be of very high quality.
33. Miller (1987) explains the difficulty of understanding the informal economy by stressing on the following- "our knowledge of the informal sector is inadequate because we are not sound regarding the formal economy." It is perhaps more appropriate to say that we have identified various sub-sectors of informal sector and thus are confused on the final decision to be made.
34. Moonlighters have been defined as those who: a) had jobs as wages or salary workers with two employees or more, b) were self employed and also held wages or salary jobs, or c) worked as unpaid family workers and also held secondary wages or salary jobs (Grossman, 1975).
35. One of the earliest qualitative definitions of small firms is that provided by the U.S. Small Business Administration, which suggests that a small business is one that is independently owned & operated and which is not dominant in its field of operation (Robinson & Pearce, 1984).
36. Rahman et al (1979), defined Small Scale Industries as those industrial units which employ manual labor but do not use motive power fixed assets, other than land, valued at not more than Tk. 0.25 million.
37. Rahman and Marius (1989), makes a distinction between Income Generating Activities undertaken by Non Governmental Organization (NGO) group and micro-enterprises on the basis of proper understanding of the business practices. They described Income Generating Activities (IGAs) as subsistence level activity with often marginal earnings, effectively reached through community based multi-disciplinary programs combining collective borrowing schemes and non-formal motivation, education and training. On the other hand, a micro-enterprise can be looked at as an urban or rural based informal sector, whose managers have a fundamental understanding of business practices but a limited potential for diversification and growth.
38. Richupan (1984) identifies the underground economy as the sector, which comprises of income or products not accounted for in official gross national product figures.
39. Roselius and Benton (1973), while working on the definition of informal economy identifies the element of tax evasion as an experience of civic indifference in response to the failure of governments to implement effective economic policies.
40. Ross and Usher (1986) outlines some distinct features of the informal economy which reads as follows " ...informal activity is associated with more face to face contact, ... by more consensus type decision making, by less

specialization and stereo-typing, by fewer regulations, by more direct attention being paid to personal development, by more flexible work routines, by increased local decision making, by greater reliance on personal and community resources, production being distributed more according to needs, by the absence of capital money, by increased concern towards the community, and by more cooperation.

41. Sampson (1987) identifies informal sector as the second economy and quotes the definition of Michael Marreses systematic definition - "the second economy includes all of the non-regulated (legal and illegal) aspects of economic activities in state and cooperative organizations, plus all unreported activities, plus all forms of private (legal, semi legal, and illegal) economic activity. The economy is characterized by four B's - Barter, Black Markets, Bribe, and Blat (Russian for connection or influence).
42. Senghaas (1972), contends that while the formal economic sector is characterized by high growth rates, massive foreign investment, relative high capital intensity and labor productivity, the informal sector is characterized by the opposite indicators. It comprises of employed craftsmen, as well as those employed in non-industrial services.
43. Sethuraman (1976), while looking at the complexities of the informal sector definition tries to isolate certain factors associated with the definition of informal sector by summarizing the following conditions : a) unprotected: which is without union and government guarantees, b) un-enumerated: which is not counted in official statistics, and c) underemployed: which pays very low wages and works irregularly.
44. Setting out the basic characteristics of small enterprises, Stabler (1965), identifies the following major characteristics : a) little management specialization, b) close personal contact with customers, c) credit difficulties, and d) the proliferation of small units.
45. Small Scale Industries are production units that employ 1-19 workers regardless of whether or not they use power driven machinery. Further, the Small Scale Industries are subdivided into Cottage and Household Industries (CHIs) and Small Factories (SIs). CHIs are firms employing 1-4 workers, mostly family members and SIs employ 5-19 workers, mainly wage-labor. Production units that employ more than 19 workers are classified as Medium and Large Scale Industries (Tambunan ,1992).
46. Staubus (1989), identifies the black economy as un-protected by the government, having characteristics of tax evasion.
47. Tanzi 1983, stresses that taxes alone should not be a contributing factor towards growth of underground economy; regulations, prohibited activities, and bureaucratic complications also lead to its growth. He further tries to differentiate the definitions identifying underground economy as income not reported to tax authorities and income not included in national income accounts.
48. The most general characteristics of informal activities as identified by Bienefeld (1975), is its dependence on a corporate economy dominated by transitional capital. He identifies three basic types/characteristics associated with informal economy: a) either the activities are pursued on a "temporary basis", or b) they are pursued in market niches that have been neglected by big capital insofar as accumulation did not seem possible, or c) they are pursued in an "open market", a situation that presses for either governmental support or corporate ties if the market share is to be maintained.
49. The authors (Chickering and Salahdine, 1991) quotes the definition of Sethuraman provided in his article "The Non-Structured Urban Sector : Concept, Measure, and Action", of 1976. Sethuraman had differentiated five different employment sectors - industrial production, construction, transportation, retail trade, and services. He suggested that any industry to be classified as informal needs to fulfil one of the eight conditions, which follow: i). it employs no more than 10 people. ii). it avoids social regulations. iii). it does not work at fixed hours. iv). it employs workers from the household of the head of the enterprise. v). it has an inherent nature or occupies provisional premises. vi). it does not utilize electrical or mechanical energies. vii). it does not use credit from formal institutions. viii). it employs workers with fewer than six years of schooling.
50. The informal sector is generally considered to be negative or opposite of the formal economy. The formal economy are found to comprise of the following characteristics - "sectors that have formal requirements, are legally recognized by the government, are capital intensive and often dependent on imported technology, requires formally acquired skills, and comprise individual units with sufficient stature and status to have access to government bodies and resources." The authors stresses that it sounds irrational to consider the informal sector which has been existing from time immemorial to be so and the formal sector , a transplant from the western economy be given the edge. The informal sector is not illegal but is, for the most part, outside of or untouched by the administrative framework that has formalized a (minor) part of the economy (Poapongsakoran, 1991).
51. Poapongsakoran (1991) quotes the ILO definition of the Informal sector as having any one of the following characteristics : ease of entry, reliance on natural resources, family ownership of enterprises, small scale of operations, labor intensive and adapted technology, skills acquired outside the formal school system, and unregulated and

competitive markets. The author adds that although the definition is perhaps more realistic than most of the definitions prevalent in the informal literature, it is impossible to apply using available official statistics.

52. The Underground Economy is an exciting corner in the grim domain of the dismal science. It is the realm of the unofficial, of the irregular, of the hidden, of the illegal : the submerged portion of what remains poorly understood process called the economy (Paquet, 1988).
53. The Bolton Committee (1971) in the U.K. defined the small business taking three main characteristics into account. FIRST, in economic terms, a small firm is one that has relatively small share of its market. SECOND, it is managed by its owners or part owners in a personalized way, and not through the medium of formalized management structure. THIRD, it is also independent in the sense that it does not form part of a larger enterprise & that the owner manager should be free from outside control in taking their principal decisions.
54. The Irregular Economy may be defined as one which is not covered by the national accounting definitions and is described as the household or domestic economy and may also be termed as non-monetized part of the formal economy (Gershuny, 1987).
55. The Informal Sector is one, which generally operates without any dealing with or support from formal institutions or programs. The vast majority have no access to formal credit or government assistance programs and operate without any form of license. Their prospects for improving productivity and income for self-sustaining growth are limited by un-assured supply of quality raw materials, inadequate infra-structural facilities, and by their continued use of simple, but obsolete technologies; these constraints restrict the quality and markets of their products (World Bank, 1987).
56. Thoumi (1987), divides the activities associated with the underground economy into three categories : the relatively legal, those which try to avoid laws and regulations, and the totally illegal and antisocial. He calls it the hidden economy or the underground economy.
57. Tuhy (1981), defines the underground economy as a world where jobs, services, and business transactions are usually paid for in cash to evade payment of taxes. This is mainly due to high burden of taxes.
58. Underground economy can be defined as an income generating activity not reflected in official statistics (Ferman and Bernadt, 1978).
59. Underground economy is a very diverse sector that has many different meanings for different groups involved in it, depending on the type of incorporation into the broader economic context (Kelly, 1985).
60. While explaining the underground economy Weiss (1988) defines it as one that is neither registered nor taxed nor officially regulated.
61. Wiegand 1992, in his book, *Off The Books : A Theory and Critique of the Underground Economy*, illustrates that "if there is one common thread running through the body of scholarly work, it is that the underground economy is illegal. He further suggests that "social relationship through economic transaction serves as the defining point of the underground economy. He further explains that, failure to regulate or eliminate illegal production over a period of time gives rise to an institutional structure. Markets emerge and develop, interactions become routinized, as patterns of industrial organization take shape. These structures are, in the sociological sense of the word, *sui genesis*."
62. Unofficial Economy are those which do not get any government support and do not pay taxes to the government. The sectors in the economy are basically fighting for subsistence (Clark, 1988).
63. Shadow Work in the traditional term is an activity associated with marginal or underpaid or even unpaid labor. At times it is also associated with forced labor or slavery, and is considered to be a totally illegal activity (Illich, 1980).
64. Illich (1981), further defines "shadow work" as an activity involving transactions which are not in the monetized sector and further do not exist in the pre-industrial societies.
65. Counter economic is an activity which is part of the informal economy and is associated with cash sales that provides a link with the evasion of direct taxes (Gordon, 1990).
66. Irregular economy can be distinguished as one which saves the purchaser the indirect tax and the vendor the income tax (Gordon, 1990).
67. Counter sales is defined as an activity which deals with over the counter sales. The transactions being exclusively in cash to avoid taxes (Sordes, 1991).
68. Sinclair (1990), identifies over the counter activity as illegal, criminal and antisocial activity associated with drug dealings.
69. Nel and Pitt (1989), identifies Twilight, as an unethical practice in marketing and business involving activities such as bribe and other favors as a means to obtain unwarranted benefits.

70. Berton (1989) has identified the selling of arms in the non-formal markets as a twilight activity.
71. Second Market is one that is not state controlled and may be both legal and illegal (Charemza, 1990).
72. Markets which do not have any official status and work outside the realm of the official domain can be classified as unofficial market (Charemza, 1990).
73. Shadow economy can be termed as that part of the economy which is supported by illegal trade (Vatikiotis, 1991).
74. Shadow economy which is a synonym of 'hidden economy' is an economy outside the formal system, depending on self employment within the household, having no characteristics of fixed wage system, and the products that are manufactured within the household system do not have any fixed prices (Bennett, 1990).
75. Neel 1989, identifies Shadow Economy as one which works under informal personalized relationships resulting in higher productivity compared to its formal counterpart.
76. Smith 1989, identifies shadow economy as one that works outside the formal system and is not legal and thus exists outside the social structure.
77. Identifying the Black economy Smith (1989), adds the element of tax evasion along with the illegality and considers it some what different from the shadow economy.
78. While elaborating on the Second economy however, Smith 1989, considers it to be a part of the legal economic system, which is private in nature and is beneficial towards the development of the society.
79. Submerged economy according to De Rita (1987), is one which includes a) undeclared employment, b) part-time work, c) moonlighting, d) contract work, e) industrial decentralization, and at times f) total illegality.
80. Parallel Economy is part of the black economy, dealing in illegal, antisocial products (Murphy, 1989).
81. Parallel Economy according to Cassel (1990), is private value adding activity, outside the formal activity, they deviate from the effective "standard of the system," and are not or are only partially included in the national income accounting. It comprises of both legal private enterprises of small craftsmen, dealers, and farmers and illegal ones also called the underground sector that are hidden and usually prohibited, and involved in evasion of taxes.
82. Second economy is that part of the economy, which has the characteristics of a more informal relationship amongst the employees under a cooperative network. They are found to be more productive compared to the formal westernized approach of economic setting (Grancelli 1989).
83. The second economy is characterized by the following - a) small scale production, b) limited amount of investment, c) collective management system, and d) dual structure, i.e. having both formal and out of formal activities within the system (Gobor, 1989).
84. Hidden economy may be considered to be a part of the informal economy which is not recorded in the government statistics and is characterized by evasion of taxes (Bhattacharyya, 1990).
85. Hidden economy comprises of that part of the economy which comprise of privately held companies not listed in the official statistics (Birch 1988).
86. The part of the economy which constitute manufacturing units small in size and employing fewer than 20 workers constitutes what is termed as the hidden sector or economy (Birch 1988).
87. Grey markets are associated with terms such as bad loans, weak profits, and meager growth in business (Anonymous 1991).
88. Gray marketing involves the distribution of genuine products outside the authorized dealers or distribution channel via a parallel channel (Cross et al 1990).
89. Gray markets are those which are created by the diversion of products away from their traditional channels of distribution (Lowe and McCrohan, 1989).
90. Gray market activity is parallel distribution of genuine goods by intermediaries other than authorized dealers or channel members (Cavusgil et al, 1988).
91. Consumer products gray markets are markets for products that are diverted from their traditional channels of distribution. In effect, gray market channels are parallel or traditional channels and occupy a position between black markets and traditional markets (Lowe and McCrohan, 1988).
92. Gray markets are those where the products are sold outside the manufacturers authorized distribution channel (Cespedes et al, 1988).

93. Gray marketing involves the selling of trade marked products through channels of distribution that are not authorized by the trade mark holder. It can involve unauthorized distribution of goods either within a market or across markets (Duhan and Shaffet, 1988).
94. Dual Economy can be termed as one which comprises of two parts, one sector protected from the foreign competition while another with substantial deregulation and competition (Moran, 1990).
95. Dual economies can be defined as those which distinctly proves the existence of technologically advanced activities alongside more traditional activities (Stabler, 1989).
96. The existence of the more traditional agricultural rural economy alongside the more urbanized developed economy as prevalent in the third world is termed as dual economy (Dutta, 1988).
97. Moonlighting is the phenomena of people holding two jobs or more at the same time (Stinson, 1990).
98. Moonlighters are considered as those citizens of the society who hold two or more jobs at one time (Krishna, 1990).
99. The employee practice of working in a second paid job in addition to a full time primary job is known as moonlighting, some of the reasons for moonlighting include a) meeting regular expenses, b) saving for the future and, c) buying something special (Jamal, 1988).
100. The subterranean economy consists of those economic units and workers who engage in commercial activities outside the realm of the formally established mechanisms for the conduct of such activities (Hope, 1993).
101. Oliver (1993), sites three reasons to moonlighting. They are a) earn additional income, b) seek protection in case the main employment is terminated, and c) get tax advantage.
102. According to an anonymous author, drug dealing, baby sitting, and taxi driving all thrive in the so called black economy, where workers escape detection by government and taxman (1994).
103. Black economy is defined as economic and business arrangements which operate for the purpose of evading taxes or similar charges (McDonald et al, 1994).
104. Parallel markets do not exist in most developed countries. The parallel foreign exchange market ranges from an official free market, or an unofficial but legal market, to a tolerated market and on to an illegal black market. A parallel market cannot exist without an official market, through which all or part of the foreign exchange transactions of a country must be channeled (Marcuse, 1992).
105. According to Lansing and Gabriella (1993), the distribution of genuine products outside manufacturers authorized channel is termed as grey markets. Although they are not illegal in most case, gray markets create complications for licensed dealers and the companies that supply them.
106. There is no universally accepted definition of small scale industries. But the term 'small scale industry' is used everywhere, both in developed and developing countries, to denote the character of a particular type of industry. In fact, the definition has undergone changes over time in most countries. Even in a single country the definition varies from time to time. Some scholars use qualitative criteria and attempt to define them in terms of functional characteristics like specialization in management, access to capital market etc. But other define them from the view point of various quantitative criteria such as employment, value of assets, capital requirement and so on. Moreover, there are some legal definitions. For instance, Japan has a set up definite legal criteria to define small business and put them in the same category with medium enterprise.

APPENDIX IV

Terms Referred to in The Literature

a. Major terms

- 1 Informal
- 2 Underground
- 3 Small
- 4 Micro
- 5 Irregular
- 6 Income Generating Activity
- 7 Cottage Industry
- 8 Invisible
- 9 Subterranean
- 10 Moonlighting
- 11 Black
- 12 Counter
- 13 Dual
- 14 Gray
- 15 Secondary
- 16 Submerged
- 17 Hidden
- 18 Unofficial
- 19 Parallel
- 20 Shadow
- 21 Twilight
- 22 Second

b. Other terms

- 1 . Unobserved
- 2 . Unsheltered
- 3 . Illegal
- 4 . Cash
- 5 . Unrecorded
- 6 . Marginal

APPENDIX V

Characteristics Identified

1. Not mentioned in the official statistics
2. No standardized labor policy
3. Associated with tax evasion
4. Cooperative management system
5. Has an illegal status
6. Characterized by the size of operation
7. Outside the boundary of formal economy
8. No formalized regulations or practices
9. No external support
10. Based on limited capital
11. An house hold activity
12. Has low technology base
13. Characterized by number of employees
14. Personalized management approach
15. Ease of entry due to low competition
16. Comprises of competitive market
17. An intermediate Economy
18. Extremely broad based
19. Activity is associated with barter trade
20. Activity associated with the poor
21. No control by the government
22. Dependent on local natural resources
23. Labor with low level of education
24. No fixed working hours
25. The labor force has dual employment status
26. Rural based activity
27. It is a temporary activity
28. It is an antisocial activity
29. It has both formal and informal nature
30. It is a marginal activity
31. It is an urban based activity
32. Characterized with limited growth
33. Part of laissez-faire economy
34. Part of voluntary activity
35. It is a legal activity
36. It survives on influence
37. Follows community approach
38. Comprises of short production cycle
39. Produces low quality products
40. Follows specialized distribution system
41. Transaction is mostly in cash
42. Comprises exclusively of private entrepreneurs
43. Significant barriers to entry
44. Characterizes niche marketing
45. Research and development activities are absent
46. Absent from national accounting
47. Based on principle of self gain
48. No standardized pricing policy
49. No foreign investments
50. Labor productivity is very high
51. Labor force is exploited
52. Major employment sector.

APPENDIX VI

Characteristics of the Various Definitions

Numbers are based on Annexure V.

- a. Informal = $f(1,2,3,4,5,6,7,8,9,10,11,12,13,14,16,18,19,20,21,22,23,24,26,27,28,30,31,34,35,36,38,40,41,42,43,44,45,46,47,48,49,50,51,52)$.
- b. UndGrnd = $f(2,3,4,7,8,16,17,21,25,28,35,39,40,44,50,52)$.
- c. Parallel = $f(2,3,4,7,10,14,16,19,23,25,29,32,35,37,50)$.
- d. Counter = $f(2,3,15,16,50)$.
- e. Grey = $f(2,16,33)$.
- f. Munlight = $f(2,3,9,24,39,52)$.
- g. Dual = $f(11,14,16,19,23,29,32,37,52)$.
- h. Secondary = $f(2,4,5,10,16,23,27,28,30,31,32,35,36,46,52)$.
- i. Black = $f(2,3,7,50)$.
- j. Submerged = $f(2,4,24,27)$.
- k. Hidden = $f(3,7,10,12,16)$.
- l. I.G.A = $f(5,9,10,12,14,19,22,23,26,30,34,36,52)$.
- m. Invisible = $f(3,7)$.
- n. Irregular = $f(3,6,7,8,25)$.
- o. Unofficial = $f(3,4,7,9,16,34)$.
- p. Micro = $f(5,10,11,12,16,23,36,46,49,52)$.
- q. Cottage = $f(6,10,12,14,19,22,31,36,51,52)$.
- r. Shadow = $f(2,4,6,7,8,16,18,21,23,31,42,50)$.
- s. Twilight = $f(2,48,50,52)$.
- t. Submerged = $f(2,3,7,16,35,50)$.
- u. Small = $f(5,9,10,11,12,14,16,19,30,31,36,40,47,52)$.
- v. Second = $f(3,7,35)$.

APPENDIX VII

Key Elements of the Definition

Variable	% Occ. ¹	Cum %. ²	S.D. ³
1. associated with tax evasion	11.00	11.00	2.35
2. not mentioned in the official statistics	10.00	21.00	2.05
3. outside the boundary of formal economy	10.00	31.00	1.67
4. has an illegal status	9.50	40.50	1.18
5. major employment sector	9.40	49.90	1.16
6. characterized by the size of operation	4.30	54.20	0.93
7. an anti-social activity	3.50	57.70	
8. no formalized regulations or practices	3.50	61.20	
9. labor force has dual employment status	3.20	64.40	
10. characterized by number of employees	3.00	67.20	
11. no external support	2.90	70.30	
12. has low technology base	2.30	72.60	
13. based on limited capital	2.10	74.70	
14. cooperative management system	2.00	76.70	
15. labor productivity very high	1.60	78.30	
16. follows specialized distribution system	1.40	79.70	
17. an house-hold activity	1.30	81.00	
18. it is a legal activity	1.30	82.30	
19. personalized management approach	1.30	83.60	
20. follows community approach	1.30	84.90	
21. it is both formal & informal in nature	1.30	86.20	
22. it is a temporary activity	1.10	87.30	
23. comprises of competitive markets	1.00	88.30	
24. transaction are mostly in cash	1.00	89.30	
25. absent from national accounting	0.90	90.20	
26. activity is associated with barter trade	0.90	91.10	
27. rural based activity	0.70	91.80	
28. it is a marginal activity	0.70	92.50	
29. it survives on influence	0.60	93.10	
30. it is an urban based activity	0.60	93.70	
31. based on principle of self gain	0.60	94.30	
32. no control by government	0.50	94.80	
33. activity associated with the poor	0.50	95.30	
34. consist exclusively private entrepreneurs	0.40	95.70	
35. labor force is exploited	0.40	96.20	
36. extremely broad based	0.40	96.60	
37. characterized with limited growth	0.40	97.10	
38. dependent on local natural resources	0.40	97.50	
39. no standardized pricing policy	0.40	97.90	
40. no fixed working hours	0.40	98.10	

41. comprises of short production cycle	0.30	98.40
42. consists of significant barriers to entry	0.30	98.70
43. standardized labor policy exists	0.30	99.00
44. characterizes niche marketing	0.20	99.20
45. part of voluntary activity	0.10	99.30
46. produces low quality products	0.08	99.38
47. research & development activities absent	0.08	99.46
48. ease of entry due to low competition	0.08	99.54
49. part of laissez-faire economy	0.05	99.59
50. an intermediate economy	0.05	99.64
51. no foreign investments	0.05	99.69
52. labor with low education level	0.03	99.72

1. Percent Occurrence.

2. Cumulative Percentage

3. Standard Deviation

APPENDIX VIII-A

Factors Contributing to Initiation of Business

FACTORS/PRODUCTS	PLASTIC	SHOE	L. GOODS	TOTAL
Family Background	52	77	6	135
Good Financial Status	2	5	3	10
Poor Financial Status	19	27	17	63
Associated With Trade	29	67	36	132
Past Experience	128	132	145	405
Friends/Relatives	14	3	15	32
More Profit	9	13	22	44
Nothing Else To Do	32	30	27	89
NGO/Government	0	1	1	2
No Specific Reason	15	14	7	36
Had To Do Something	27	6	24	57

APPENDIX VIII-B

Calculation of Correlation Coefficient for Factors Contributing to Initiation of Business

	Category	Plastic	Shoe	L.Goods
Pearsons Correlation	Plastic	1.00	0.925	0.915
	Shoe	0.925	1.00	0.809
	L.Goods	0.915	0.809	1.00
N		11	11	11
Mean Correlation	0.88			

Correlation is significant at the 0.01 level (2-tailed).

APPENDIX IX-A

Factors Associated with the Definition of Informal Sector (scores obtained is provided against each factor)

FACTORS OF DEFINITION	PLASTIC	SHOE	L.GOODS	TOTAL
An house hold activity	482	471	462	1415
Has low technology base	604	638	574	1816
Employees are few	516	509	501	1526
Low level of competition	558	647	566	1771
Characterises niche marketing	552	634	530	1716
Follows special distribution system	497	635	580	1712
Transaction is mostly in cash	447	592	510	1549
Produces low quality products	675	701	591	1967
No standardised pricing policy	424	546	456	1426
Labour productivity is very high	558	537	471	1566
Comprises of short production cycle	485	553	480	1518
Associated with barter trade	683	710	696	2089
Personalised management system	492	518	501	1511
Characterises limited growth	520	492	457	1469
Labour with low level of education	605	575	583	1763
No control by the government	639	581	530	1750
Research & development is absent	758	786	655	2199
Labour force is exploited	498	541	500	1539
No external support	612	595	562	1769
Dual employee status	665	595	526	1786
Limited capital for operation	541	530	441	1512
No link with formal sector	674	636	569	1879
Co-operative management system	739	735	633	2107
Associated with tax evasion	697	508	437	1642
Not mentioned in official statistics	576	593	570	1739

APPENDIX IX-B

Calculation of Correlation Coefficient for Factors Related to Definition of Informal Sector

	Category	Plastic	Shoe	L.Goods
Pearsons Correlation	Plastic	1.00	0.662	0.624
	Shoe	0.662	1.00	0.891
	L.Goods	0.624	0.891	1.00
N		25	25	25
Mean Correlation	0.726			

Correlation is significant at the 0.01 level (2-tailed).

APPENDIX - X

Calculation of Correlation Coefficient for Factors Associated with Ownership of Business

	Category	Plastic	Shoe	L.Goods
Pearsons Correlation	Plastic	1.00	0.466	0.524
	Shoe	0.466	1.00	0.422
	L.Goods	0.524	0.422	1.00
N		5	5	5
Mean Correlation	0.470			

Correlation is significant at the 0.01 level (2-tailed).

APPENDIX -XI

Expansion since Initiation of Business by the Units

Expansion	Plastic	Shoe	L.Goods	Total
None	51	52	48	151
Product	69	108	95	272
Capacity	33	35	24	92
Market	65	87	92	244

Multiple answers were obtained for each respondent.

APPENDIX XII
Reasons for Non Expansion

<i>S. No</i>	<i>Reasons</i>	<i>Frequency</i>	<i>AD*</i>
1	Financial Limitation	290	255.48
2	Lack of Raw Material	92	57.48
3	Marketing Bottle-neck	90	55.48
4	Lack of Skilled labour	42	7.48
5	Lack of Equipment	29	-5.52
6	Inadequate Storage Facility	16	-18.52
7	Employees leave	15	-19.52
8	Government Harassment	11	-23.52
9	Inadequate Production Facility	11	-23.52
10	Seasonal Business	10	-24.52
11	Price Fluctuation of Raw Materials	9	-25.52
12	Inadequate Outlets	8	-26.52
13	No Reason	6	-28.52
14	Lack of Trusted People	5	-29.52
15	Low Profit Margin	5	-29.52
16	Never Thought	5	-29.52
17	Political Problem	3	-31.52
18	Too Risky	3	-31.52
19	Competition from Formal Sector	2	-32.52
	Total	652	
	Mean	34.32	
	*AD = Average Deviation from Mean		

APPENDIX XIII-A
Level of Satisfaction with Functional Areas

Functional Area	Plastic		Shoe		Leather Goods		Total	
	Inform	Formal	Inform	Formal	Inform	Formal	Inform	Formal
Production	599	29	574	24	474	16	1647	69
Marketing	707	36	720	24	708	26	2135	86
Raw Material	569	29	580	25	511	17	1660	71
Human Resource	467	33	547	27	437	21	1451	81
Financial Aspect	822	37	911	30	908	23	2641	90
Equipment's	475	30	589	22	544	22	1608	74

APPENDIX XIII-B

Calculation of Correlation Coefficient for Level of Satisfaction with Functional Area

	Category	Plastic	Shoe	L.Goods
Pearsons Correlation	Plastic	1.00		
	Shoe		1.00	
	L.Goods			1.00
N		6	6	6
Mean Correlation	0.96			
Formal/Informal Correlation	0.79			

Correlation is significant at the 0.01 level (2-tailed).

APPENDIX –XIV

Calculation of Correlation Coefficient for Strength and Weakness of Functional Area

	Category	Plastic	Shoe	L.Goods
Pearsons Correlation	Plastic	1.00	0.675	0.823
	Shoe	0.675	1.00	0.801
	L.Goods	0.823	0.801	1.00
N		6	6	6
Mean Correlation	0.766			
Formal/Informal Correlation	0.621			

Correlation is significant at the 0.01 level (2-tailed).

APPENDIX XV

Distribution of Manpower in Various Functional Areas

Plastic

	<i>Prod</i>	<i>Mkt</i>	<i>Fin</i>	<i>Admin</i>	<i>Purch</i>	<i>Pack</i>	<i>Others</i>
Prod.	922	37	27	32	38	107	20
Mkt.	0	69	39	35	49	14	0
Fin.	0	0	50	32	34	7	1
Admin.	0	0	0	136	84	16	7
Purch.	0	0	0	0	21	1	8
Pack.	0	0	0	0	0	104	2
Others	0	0	0	0	0	0	2
Total	922	106	116	235	226	249	40

Shoe

	<i>Prod</i>	<i>Mkt</i>	<i>Fin</i>	<i>Admin</i>	<i>Purch</i>	<i>Pack</i>	<i>Others</i>
Prod.	999	111	66	60	105	95	11
Mkt.	0	48	29	25	28	3	1
Fin.	0	0	18	8	7	2	0
Admin.	0	0	0	138	90	18	3
Purch.	0	0	0	0	10	0	3
Pack.	0	0	0	0	0	10	0
Others	0	0	0	0	0	0	0
Total	999	159	113	231	240	128	18

L.Good

	<i>Prod</i>	<i>Mkt</i>	<i>Fin</i>	<i>Admin</i>	<i>Purch</i>	<i>Pack</i>	<i>Others</i>
Prod.	698	84	63	59	76	101	46
Mkt.	0	31	25	22	24	0	1
Fin.	0	0	25	15	13	4	1
Admin	0	0	0	126	96	38	4
Purch.	0	0	0	0	2	0	0
Pack.	0	0	0	0	0	1	0
Others	0	0	0	0	0	0	0
Total	698	115	113	222	211	144	52

Mean Correlation value = 0.923

APPENDIX XVI
Financial Status of the Informal Sector

<i>PLASTIC</i>				
	Minimum Value	Maximum Value	Mean Value	Respondent
Land	5000	2000000	172260	23
Building	5000	700000	55620	25
Equipment	700	600000	20973	201
Furniture	50	10000	2010	176
Liquid Capital	100	100000	2961	196
Transport	1000	6000	1314	7
Others	2000	2000	2000	1
<i>SHOE</i>				
Land	3000	120000	34437	27
Building	500	50000	7061	29
Equipment	150	6000	997	211
Furniture	200	7000	334	147
Liquid Capital	100	10000	1064	207
Transport	1500	2700	1010	3
Others	600	5000	2943	7
<i>L. GOODS</i>				
Land	400	200000	57226	9
Building	10000	150000	57500	8
Equipment	100	150000	1908	195
Furniture	100	5000	359	120
Liquid Capital	100	100000	1537	199
Transport	600	1200	900	2
Others	0	0	0	0

APPENDIX VII

Calculation to Determine the Important Marketing Activities

Five Point Scale having values equal to:

1 = Very Important

2 = Important

3 = Neutral

4 = Un-Important

5= Very Un-Important

Since respondents were asked identify the importance for all the 21 activities each factor score could have a value equal to point score multiplied by the number of valid response.

The total number of valid response was :

	177 for plastic,
	182 for shoe, and
	163 for leather goods

Since the median value of 3 represented a neutral feature indicating neither important nor un-important, scores lower than then that representing the neutral value was considered as important. As a result the scores were :

	531 for plastic,
	546 for shoe, and
	489 for leather goods

APPENDIX XVIII

Average Percentage Expenditure for Various Marketing Activity

Activity	Plastic	Shoe	L. Goods
Commission	9	11	8
Development	9	9	8
Improvement of Goods	10	9	8
Remuneration	15	15	16
Distribution	9	9	8
Storage	12	14	11
Raw Material	70	72	76

APPENDIX XIX

List of Associations Identified under Survey

1. Bangladesh Plastic Goods Manufacturing Association.
2. Bangladesh Plastic Footwear Association.
3. Footwear Manufacturing Association.
4. Leather Goods Association.
5. PROSHIKA.
6. DCCI.
7. Kabiraj Gali Bashakanta Nandi Lane Shomaj Kollayan Shomiti.
8. BPGA.
9. Daily Wagers Association.
10. Bangladesh Agricultural Merchant Association.
11. Bangladesh Poly Propylene Cottage Industry Owners and Traders Association.
12. Fakirapul Shomobay Shomiti.
13. Uttara Noyatola Jonokolyan Shomiti.
14. Bangladesh Polythene Shilpa Shomiti.
15. Bangladesh Plastic Association.
16. Bangladesh Islampur Leather Association.
17. Town Hall Government market Association.
18. Pallabi Thana Paduka Shilpa Beboshai Shomobai Shomiti.
19. Nasir Khudro Shilpa Shomiti.
20. Narayganj Market Shomiti.
21. Savar Bazar Beboshai Shomobai Shomiti.
22. Karika Shomobai Shomiti.
23. Paduka Shomobai Shomita.
24. New Market Hawkers Association.

APPENDIX XX-A
Determining the Rank Score

S. No	Factors	RANK SCORES			SUM OF RANK SCORES		
		Plastic	Shoe	L. Goods	Plastic	Shoe	L. Goods
1	New Product Development	1.67	2	1	30	39	22
2	Inventory Management	0.44	0.67	0.22	8	12	4
3	Advertising	1.56	1.61	0.72	28	29	13
4	Personal Selling	0.06	0.06	0	1	1	0
5	Marketing Research	0.17	0.06	0	3	1	0
6	Pricing	2.61	1	2.11	47	18	38
7	Distribution	0.89	0.89	1.89	16	16	34
8	Product Demand	2.44	0.89	0.72	44	16	13
9	Production Capacity	1.61	1.5	0.28	29	27	5
10	Door to Door Selling	0.28	0.67	0.5	5	12	9
11	Formal Competition	5	3.11	4.11	90	56	74
12	Legal Constraints	0.44	0.11	0.33	8	2	6
13	Technological Constraint	1.11	3.28	1.67	20	59	30
14	Financial Constraint	23.78	28.56	25.56	428	514	460
15	Credit Sales	16.83	15.28	17.39	303	275	313
16	Raw Material Availability	4.78	3.89	5.06	86	70	91
17	Skilled Work Force	2.56	4.39	2.28	46	79	41
18	Others	1.06	1.56	2.56	19	28	46

APPENDIX XX-B

Problems Associated with Marketing of Products

S. No	Factors				Factor Score		
		Plastic	Shoe	L. Goods	Plastic	Shoe	L. Goods
1	New Product Development	45.5	49	37	76	107	45
2	Inventory Management	21.2	21	17	9	14	4
3	Advertising	22.2	32	18	35	52	13
4	Personal Selling	4.4	6	3	0	0	0
5	Marketing Research	4.9	7	1	1	0	0
6	Pricing	33.1	17	27	86	17	57
7	Distribution	18.3	9	11	16	8	21
8	Product Demand	31.6	22	13	77	20	9
9	Production Capacity	28.7	25	14	46	38	4
10	Door to Door Selling	7.4	11	12	2	7	6
11	Formal Competition	46.5	25	29	233	79	117
12	Legal Constraints	8.4	9	6	4	1	2
13	Technological Constraint	22.7	33	21	25	109	34
14	Financial Constraint	91	96	97	2164	2733	2479
15	Credit Sales	83.1	79	85	1399	1212	1469
16	Raw Material Availability	55.4	52	53	265	203	268
17	Skilled Work Force	33.1	52	34	85	229	76
18	Others	4.4	7	15	5	10	38
					4527	4838	4643
					252	269	258

APPENDIX XXI

List of Exporting Countries

<i>Country</i>	<i>Enterprises Exporting</i>
France	1
South Africa	2
Japan	7
Pakistan	1
Saudi Arabia	1
UAE	1
Germany	1
Italy	2
Russia	1
UK	1
Nepal	1
USA	3
Hong Kong	1
Singapore	1
Sweden	1
Finland	1

APPENDIX-XXII

Calculation of Correlation Coefficient to identify the Customers of Informal Sector

	Category	Plastic	Shoe	L.Goods
Pearsons Correlation	Plastic	1.00	0.810	0.772
	Shoe	0.810	1.00	0.643
	L.Goods	0.772	0.643	1.00
N		8	8	8
Mean Correlation	0.742			

Correlation is significant at the 0.01 level (2-tailed).

APPENDIX XXIII

Selling/Distribution Strategy Undertaken by the Informal Manufacturing Sector

Strategy	Plastic	Shoe	L. Goods
1. Exclusive distributor selling as they consider fit using our brand name.	20	14	21
2. Own vendors/hawkers selling to selected manufacturers using our brand name.	6	0	8
3. Own vendors/hawkers selling both to retail outlets as well as direct consumers using our brand name.	12	14	15
4. Own vendors/hawkers stationed at specific places and selling directly to consumers using our brand name.	3	3	21
5. Selling to both formal and informal manufacturers who in return sell under their own brand name.	51	133	22
6. Selling to interested retailers using our brand name.	54	57	97
7. Selling to specific retailers using our/ their suggested brand name.	88	76	90
8. Selling to retailers with whom we have a contract of exclusive manufacturing and sell under their brand name.	18	24	20
9. Sell along with our informal competitors under cooperative arrangement.	2	1	1
10. Sell directly from factory to private vendors under own brand name.	20	2	5
11. Selling exclusively to formal manufacturers who sell under their own brand name.	4	15	5
12. Selling exclusively to informal manufacturers who sell under their own brand name.	4	20	30
13. Selling through door to door selling using our own brand name.	5	0	0

APPENDIX-XXIV

Calculation of Correlation Coefficient to Assess the Selling and Distribution Strategy

	Category	Plastic	Shoe	L.Goods
Pearsons Correlation	Plastic	1.00	0.784	0.825
	Shoe	0.784	1.00	0.526
	L.Goods	0.825	0.526	1.00
N		10	10	10
Mean Correlation	0.712			

Correlation is significant at the 0.01 level (2-tailed).

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