



EAST WEST UNIVERSITY

Informal Business Enterprise in Bangladesh: their characteristics, problems and sources of finance

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My work on preparing a report on **Informal Business Enterprise in Bangladesh: their characteristics, problems and sources of finance**, is a great experience for me in light of the course BUS 498 (Project Work). I strongly believe works like this will surely help me to have a clear concept about business Enterprises and expand my knowledge.

I would also like to thank my friends for helping me in making this report. Without their encouragement, I would not have made it this far.



Abstract

Small Business Entrepreneurship has been seen as a hub in generating income for the majority of urban dwellers with no formal paid employment. In Bangladesh, entry into small Business entrepreneurship is usually not seen as a problem. One can start small business at any time and in any place.

Drawing on research findings, the present paper challenges the possibility of reducing Poverty in Bangladesh using the strategy of developing the Informal business entrepreneurship Under the situation where there is an increasing level of barrier is present.

It is also observed throughout the survey that most of the respondents are not that much educated though it's a very important factor for overall improvement of the situation.

The results of this study show that much initial financing for Informal business enterprises came from Parents and then personal savings and lastly loan from others. If financial institutions come forward to help this informal sector in simple condition than there will be much more opportunity may create. We have found that there is a significant relationship between startup capital and State of the business -in the next five years so capital should be available to improve the condition of the business. Also it is found that there is significant relationship between startup capital and daily average sales at 5% level of significance. Though no significant relationship found between startup capital and overall performance of the present Business at 5% level of significance but we can draw a line in general perspective that somehow financing is the blood of any kind of business and the success is more or less dependent on the active management of flow of fund. Also no significant relationship found between level of Education and overall performance of present business at 5% level of significance.



Methodology

The study used the questionnaire/interview approach. Most of the questions imposed a limitation on the number of allowable responses, meaning the questions were highly structured questions. Almost all the questions were straight forward and it was assumed that the respondent would be willing to answer, that is questions were undisguised.

Data collection:

Basically the Questionnaire designed in two parts. First part of the Questionnaire is designed in such a way (Q1-4), by which background of the respondents can be explored.

Secondly, Questions (Q5-18) are related with the Business issues.

Sampling technique:

Convenience sampling technique is used due to limitation of Resources and time constraints.

Analysis Procedure:

Descriptive Statistics procedure is being used. Chi square test also conducted to see the association between two variables

Objectives of the study

In order to examine these issues, the following research questions have been Raised:

1. What are the characteristics of the Informal business enterprise with reference to the educational background of the operators, and motivation to come in this sector?
2. What are their sources of funds, amount of their initial capital & daily Average sale?
3. Is there any relationship between Level of education and Overall performance of present business? Also try to locate, are there any relationship between Startup capital & Daily average sales? Relationship between Startup capital and the State of the business -in the next five years also try to explore.
4. Also try to measure Startup capital and Overall performance of present business and the types of barriers Informal business sector are facing currently.

Introduction

Until the early 1960s, many economists viewed the continued existence of Small-scale industries in less developed countries as justified by scarcity of Capital and administrative experience. It was often argued that with economic growth, the small, traditional type of enterprise would, in one sector after another, be superseded by modern forms of large-scale production. In order to ensure an orderly transition, small industries were seen to deserve support, but mainly in sectors where modern methods could not be immediately applied.

Over the past Twenty years, Bangladesh has embarked on an ambitious and long process of Economic, social, and political reforms to improve the business environment and to increase economic growth and reduce poverty. In the past TEN years, despite adverse Weather conditions and deteriorating terms of trade, the economy of Bangladesh has been growing at an annual average rate of more than 5%.

Despite all these success stories, the challenge facing the government of Bangladesh is to translate these achievements into tangible human development. The depth and extent of poverty is still high with 40% of the population living below poverty line. The task of reducing poverty and improving the living standards of the Bangladeshi population is huge. The rate of growth of national economy has not been high enough to generate the number of jobs required. That brings up the issue of the majority to enter into informal business sector in the form of entrepreneurship and small business,

Given the fact that Bangladesh is one of the most rapidly growing population and urbanizing country in South Asia, with total population of 150 million people, with a high annual population growth. The implications of this rapid population growth are enormous. Firstly, young people will shortly constitute two thirds of the country's urban population. The entry into labor markets is expected to more than double, thus causing a further strain on already worsening unemployment situation.

That's why informal business enterprise is now-a-days a life saver for certain group of people of our country.

Characteristics of Informal Business based on Study Findings

Educational Background:

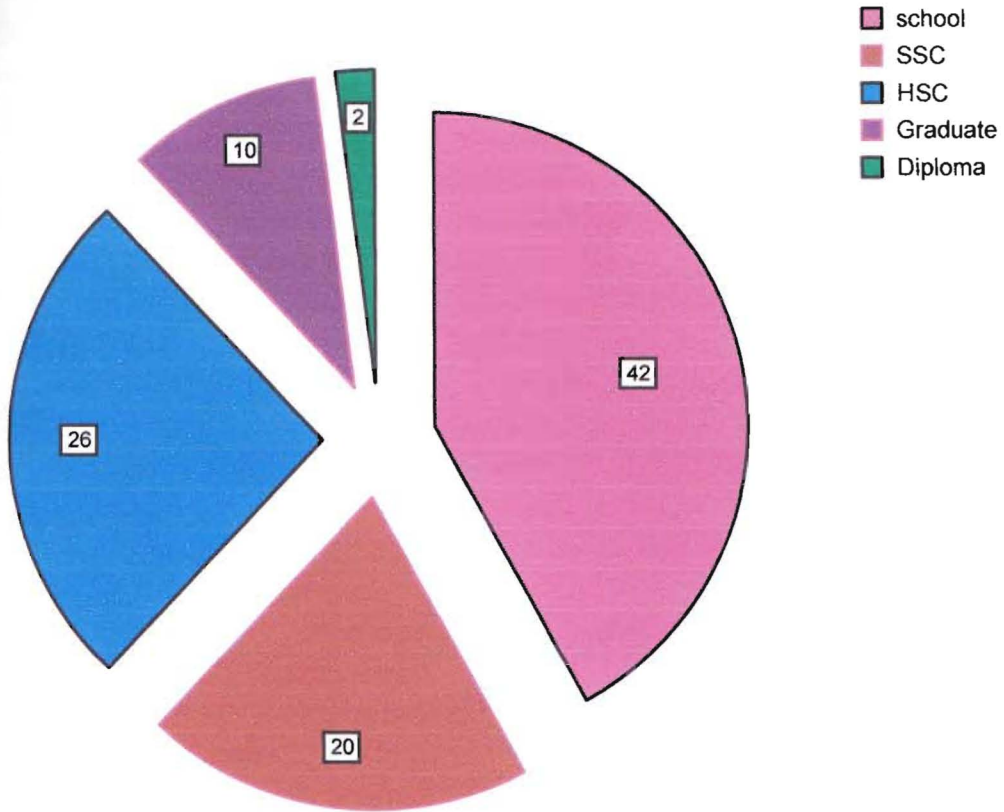
From the table it is easily viewed that most of the respondents of the informal business enterprise are complete their education up to school level. It is easily understandable that due to some factors like poverty or poor financial condition forced them to leave up their education before passing the school. From the chart it is seen that the largest portion of the sample survey, that is 42 % of the respondents are concluded their education up to School level. Respondents number of 13 out of 50, with 26 % is complete their education in HSC level. 20% of the respondents are complete their education up to SSC level. Very few, consecutively 10% and 2 % of the respondents from the total sample are complete their education in Graduation and diploma level.

Level of education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid school	21	42.0	42.0	42.0
SSC	10	20.0	20.0	62.0
HSC	13	26.0	26.0	88.0
Graduate	5	10.0	10.0	98.0
Diploma	1	2.0	2.0	100.0
Total	50	100.0	100.0	



Level of education



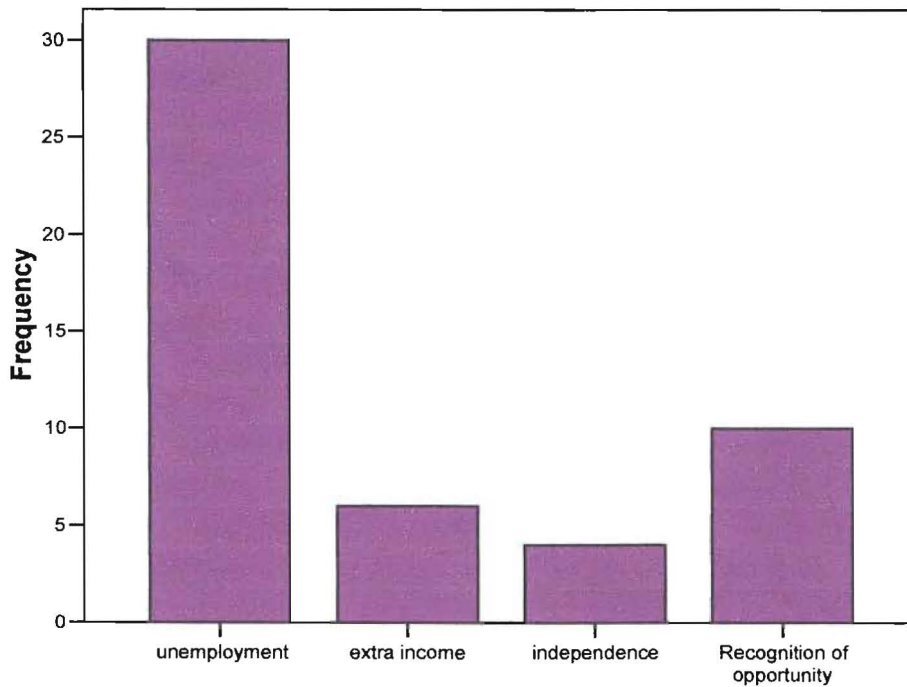
Motivation to come in this Sector:

Most of the Respondents with the highest percentage of 60% from the total sample size are come into informal business due to the Unemployment. As we know that with large number of population in Bangladesh where there is scarcity of work and opportunity lead them to come and join in informal business. The next biggest portion with a percentage of 20 % from the total sample and in number 10 out of 50 respondents, are come into business to grab the opportunity. Rest of the respondents consecutively 12% and 8 % came here in search of extra income and independence.

Motivation to start the business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	unemployment	30	60.0	60.0	60.0
	extra income	6	12.0	12.0	72.0
	independence	4	8.0	8.0	80.0
	Recognition of opportunity	10	20.0	20.0	100.0
	Total	50	100.0	100.0	

Motivation to start the business



Motivation to start the business

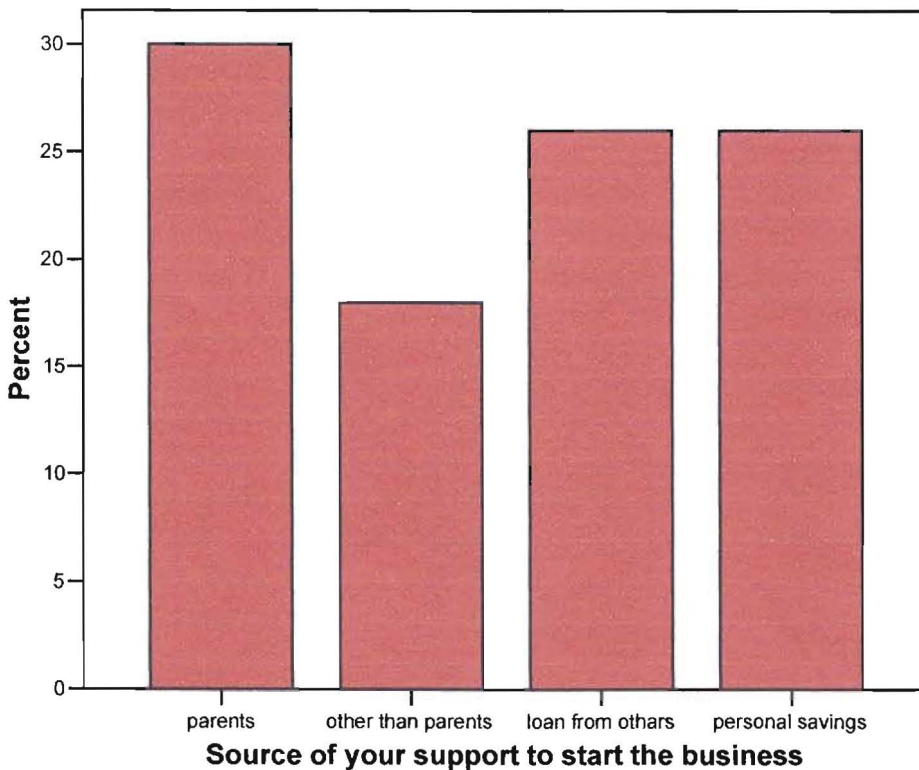
Sources of Initial Capital:

Source of your support to start the business

	Frequency	Percent	Valid Percent	Cumulative Percent
parents	15	30.0	30.0	30.0
other than parents	9	18.0	18.0	48.0
loan from others	13	26.0	26.0	74.0
personal savings	13	26.0	26.0	100.0
Total	50	100.0	100.0	

The sample size is closely located in the answers of question of "their source of support to start the business". Though most of them, almost 30% of the total sample are said that, parents are their main source of capital. Next with the percentage of 26 each, respondents belong with the answer of loan from others and personal savings consecutively. And some of them are stick with the option that the source of their capital is other than parents.

Source of your support to start the business



Size of Capital to start the Business

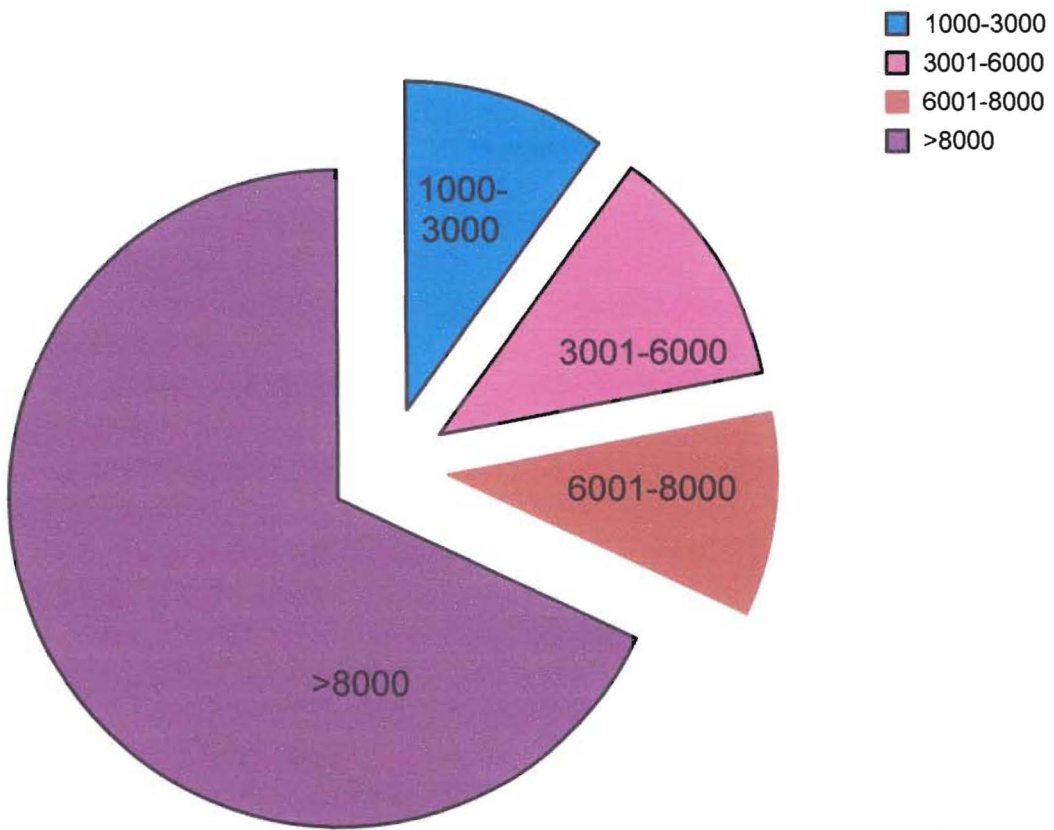
Start up capital

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1000-3000	5	10.0	10.0	10.0
	3001-6000	6	12.0	12.0	22.0
	6001-8000	5	10.0	10.0	32.0
	>8000	34	68.0	68.0	100.0
	Total	50	100.0	100.0	

Though it is a sample of informal business enterprise, interestingly the largest portion of the sample are live with the highest option of the question that is more than 8000, describe as their start up capital. Almost 68%, among 50 respondents are said that their start up capital is above 8000. Here is the limitation of the survey viewed. If the questionnaire is in open ended from than it will be possible to get more wide range of accurate information about the capital base of the entrepreneur. As the questionnaire is in close ended from so data also loosen. Next with the percentage of 10% each 10 respondents out of 50 samples are belong in the capital base of 1000-3000 and 6000-8000 respectively. Another 12% left with the option of their capital base is 3001-6000 taka.



Start up capital



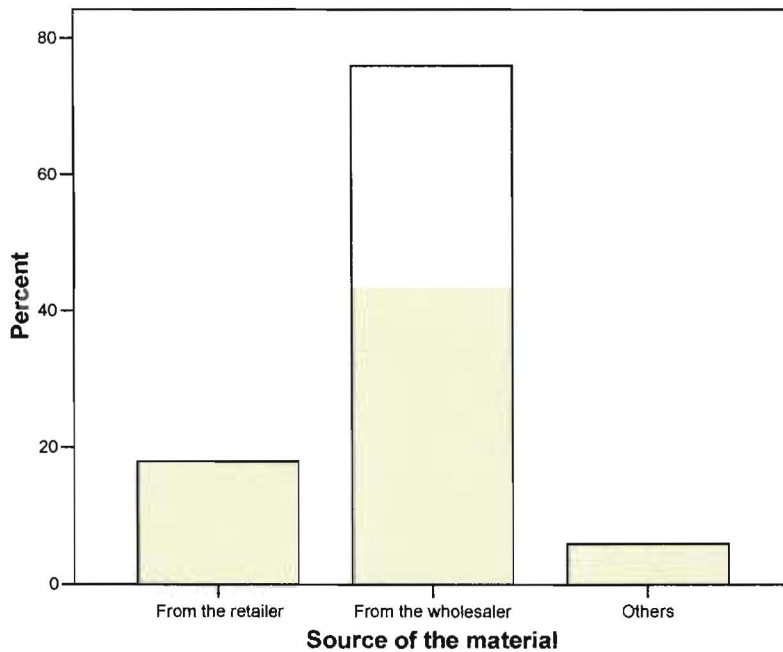
Amount of Taka

Brief view of Sources of material:

Source of the material

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	From the retailer	9	18.0	18.0	18.0
	From the wholesaler	38	76.0	76.0	94.0
	Others	3	6.0	6.0	100.0
	Total	50	100.0	100.0	

Source of the material



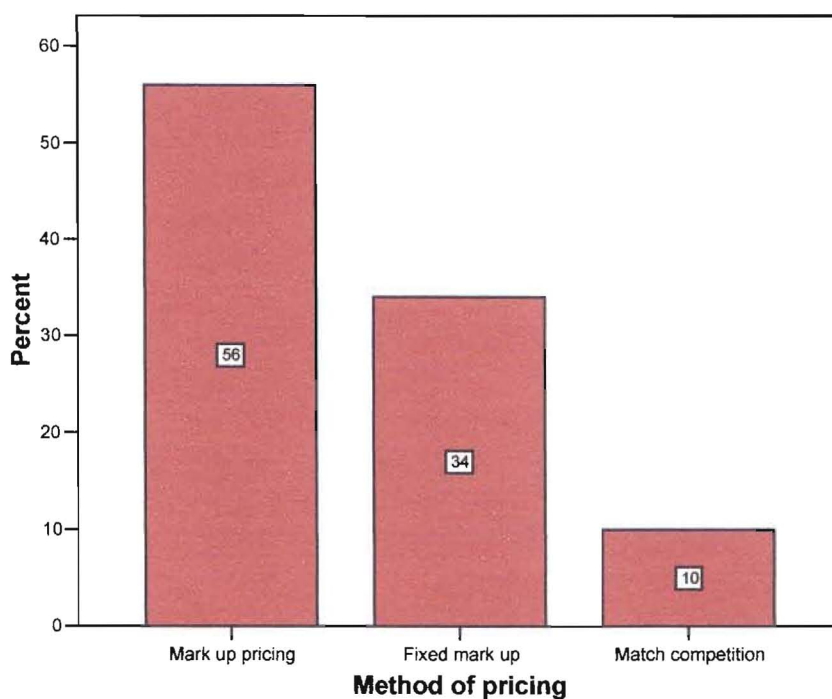
Most of the operators from the informal business enterprise are collected their raw materials from the wholesaler as it is somehow cost effective, and so that they can get a high profit margin in each unit of sales. Almost 76% of the respondents collected their raw materials from the Wholesalers. Next 18 % purchase their raw materials from the retailers. And rest of the sample purchase from other sources such as manufacturer or somehow who offered less price or convenience to them in terms of location as well as payment.

How price is being Determine ?

Method of pricing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mark up pricing	28	56.0	56.0	56.0
	Fixed mark up	17	34.0	34.0	90.0
	Match competition	5	10.0	10.0	100.0
	Total	50	100.0	100.0	

Method of pricing



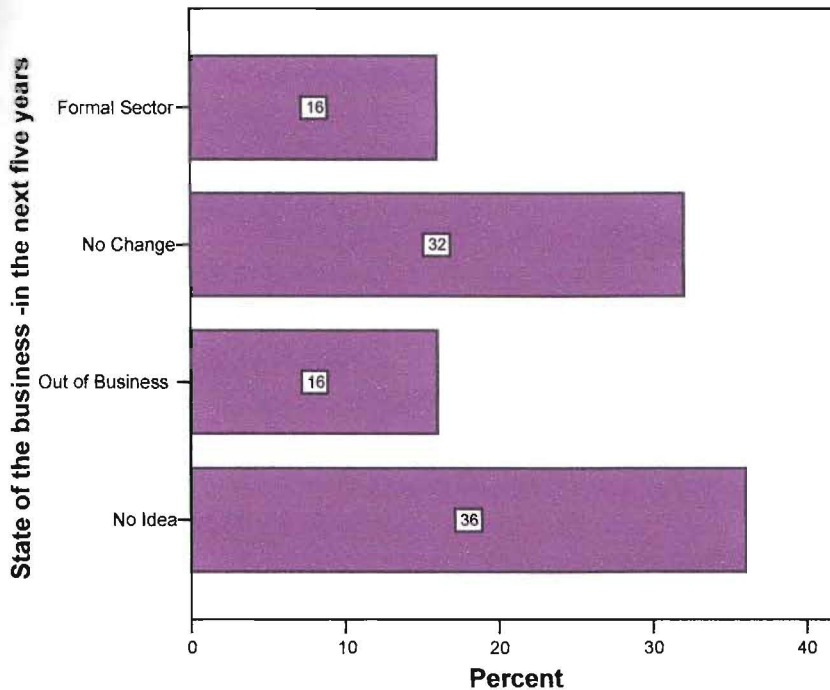
Almost 56% of the sample size answers the question of fixing there, price with the option of mark up pricing. As it's a very easy to calculate and most of them are less educated, so it's helpful for them. Moreover they also don't left with other options as the things they are selling are types of things where mark up pricing is benchmark. Next 34% of the respondents are maintained fixed mark up pricing model. Some of them based on the type of informal business they are involved, followed Match competition pricing model.

Expected State of Business in Next Five years:

State of the business -in the next five years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No Idea	18	36.0	36.0	36.0
	Out of Business	8	16.0	16.0	52.0
	No Change	16	32.0	32.0	84.0
	Formal Sector	8	16.0	16.0	100.0
	Total	50	100.0	100.0	

State of the business -in the next five years



Most of the respondents 36% and other 32% live with Confusion as there is matters of uncertainty is related in informal business enterprise and answer the question where they asked to describe themselves after 5 years with the option of NO IDEA & NO CHANGE respectively. Next 16% each with a number of 8 respondents each from 50 respondents leave up the question with the answer of their wish to move to the formal sector and out of business.

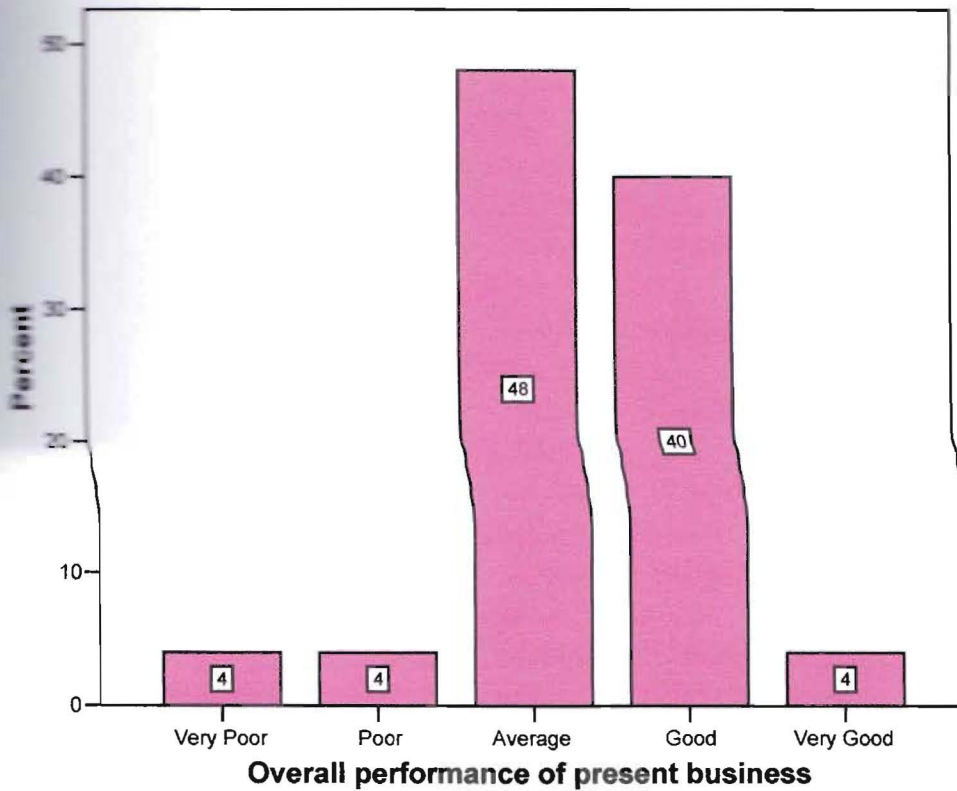
Present Business performance:

Overall performance of present business

	Frequency	Percent	Valid Percent	Cumulative Percent
Very Poor	2	4.0	4.0	4.0
Poor	2	4.0	4.0	8.0
Average	24	48.0	48.0	56.0
Good	20	40.0	40.0	96.0
Very Good	2	4.0	4.0	100.0
Total	50	100.0	100.0	

Consecutively 48% and 40% of the sample size of 50 respondents are more or less satisfied with their current business performance and give the answer with the option of Average and Good respectively. Rests of the samples are equally divided in their opinion of the question and belong with the answer of Very poor, poor and good respectively.

Overall performance of present business

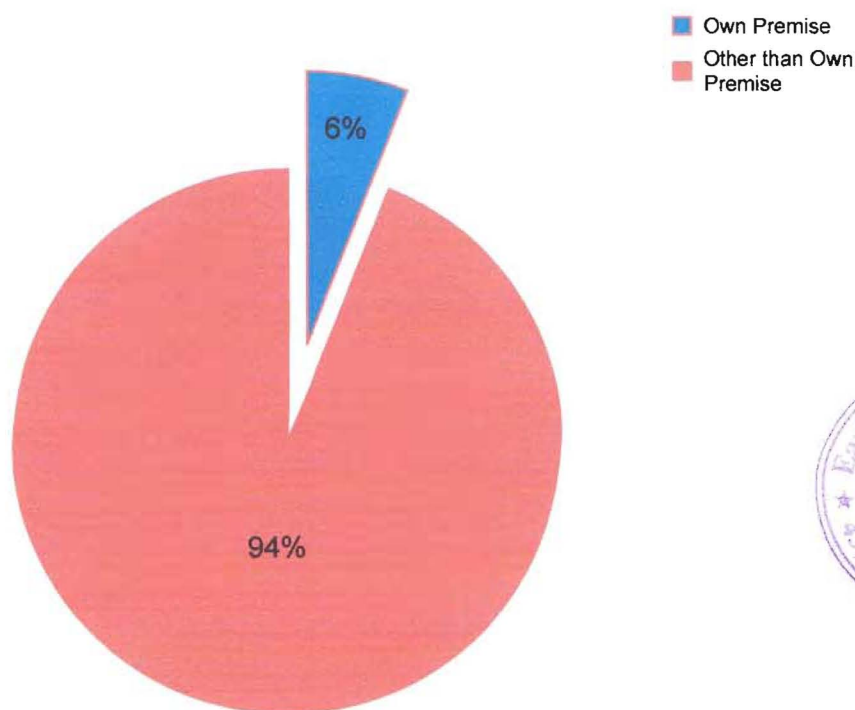


Location of the Enterprise:

Location of the enterprise

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Own Premise	3	6.0	6.0	6.0
	Other than Own Premise	47	94.0	94.0	100.0
	Total	50	100.0	100.0	

Location of the enterprise



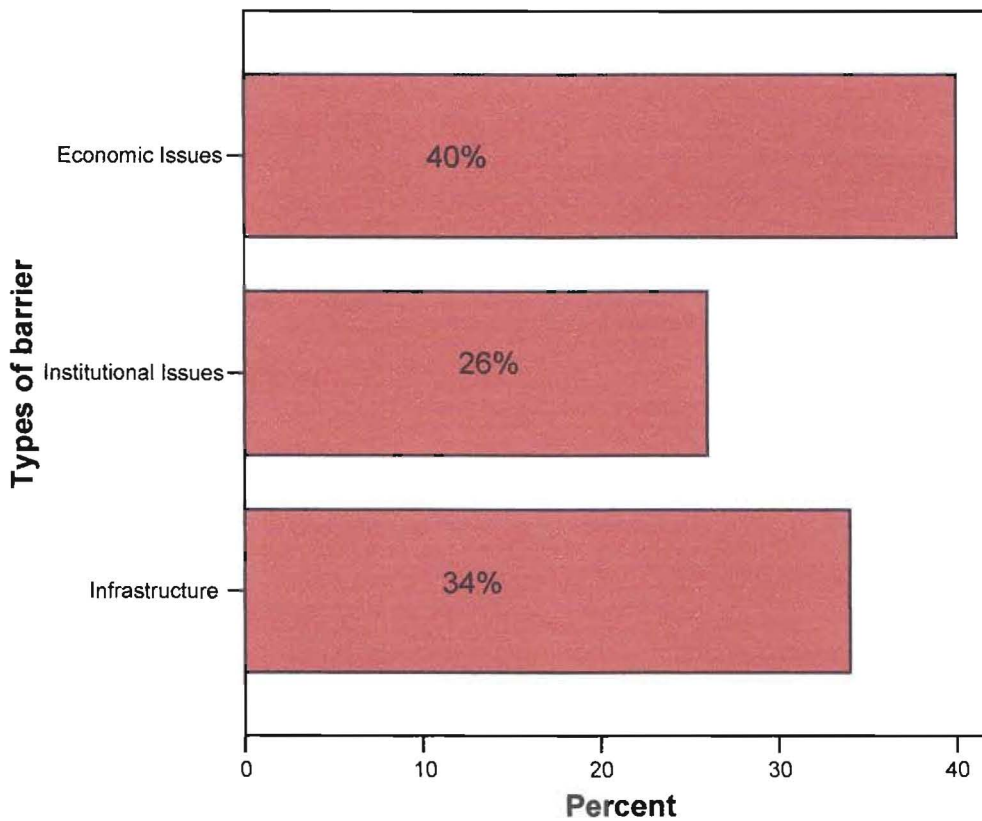
Most of the informal business operators are use other than own premise to run their business and its obvious and clearly understandable as they are somehow belong in the group of financialy insufficient group.

Types of Barriers Entrepreneur facing:

Types of barrier

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Infrastructure	17	34.0	34.0	34.0
	Institutional Issues	13	26.0	26.0	60.0
	Economic Issues	20	40.0	40.0	100.0
	Total	50	100.0	100.0	

Types of barrier



The main problem of informal business enterprise is described by the respondents are fallen into three categories and somehow they are almost equally important barriers to run the business. They are _____

A. Infrastructure (Poor infrastructure such as transport, storage facilities, water, electricity. Lack of working premises and poorly developed physical markets.

B. Institutional issues (Lack of formal schooling sometimes even resulting in illiteracy. Limited access to the land and property rights, Limited access to formal finance and banking institutions, Reliance on self-supporting and informal institutional arrangements, Too restrictive or cumbersome taxation systems and labor laws. Excessive government regulations in areas such as business startup

C. Economic Issues (Excessive registration and transaction costs of starting or operating businesses. Lack of opportunities for bulk purchase of inputs, Lack of working capital: credit has to be obtained from informal sources such as friends or relatives or non-banking financial agencies with unfavorable terms. Insufficient funds do not allow for further investments.)

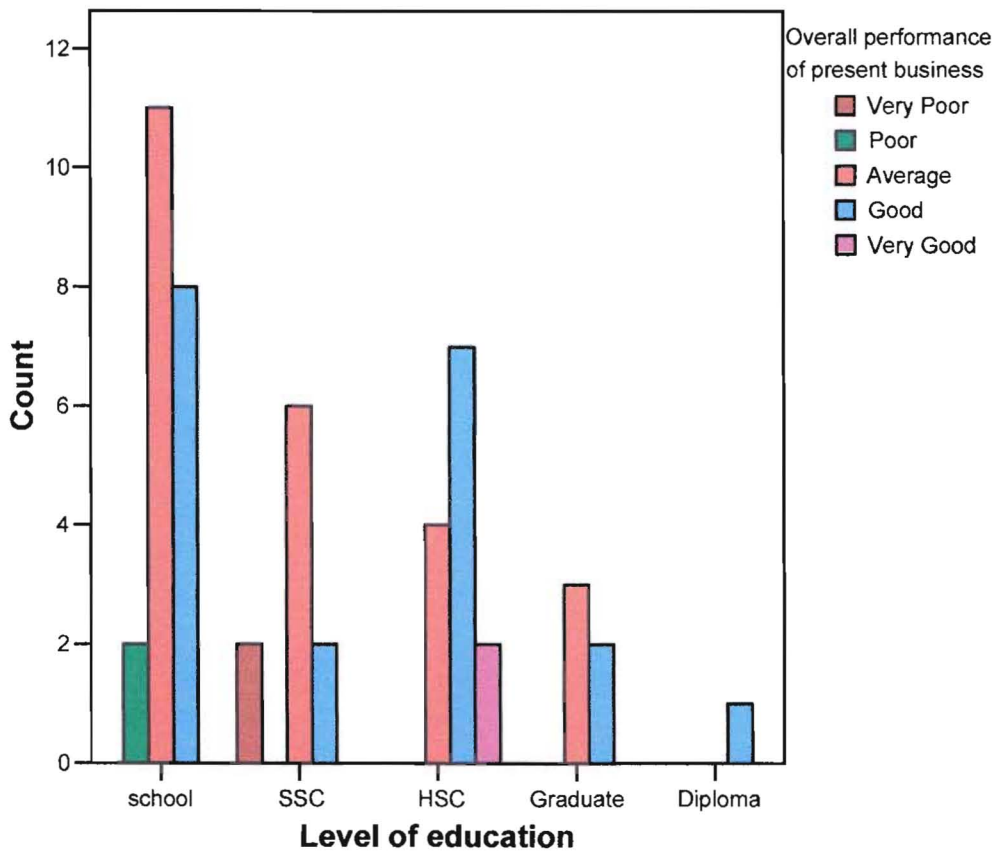
Association between level of Education & overall performance of business:

Level of education Overall performance of present business Cross tabulation

Count

		Overall performance of present business					Total
		Very Poor	Poor	Average	Good	Very Good	
Level of education	school	0	2	11	8	0	21
	SSC	2	0	6	2	0	10
	HSC	0	0	4	7	2	13
	Graduate	0	0	3	2	0	5
	Diploma	0	0	0	1	0	1
Total		2	2	24	20	2	50

Bar Chart



Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.814(a)	16	.186
Likelihood Ratio	20.118	16	.215
Linear-by-Linear Association	2.588	1	.108
N of Valid Cases	50		

Here, P- value = 0.186, which is greater than 0.05. Therefore there is no significant relationship between level of Education and overall performance of present business at 5% level of significance.



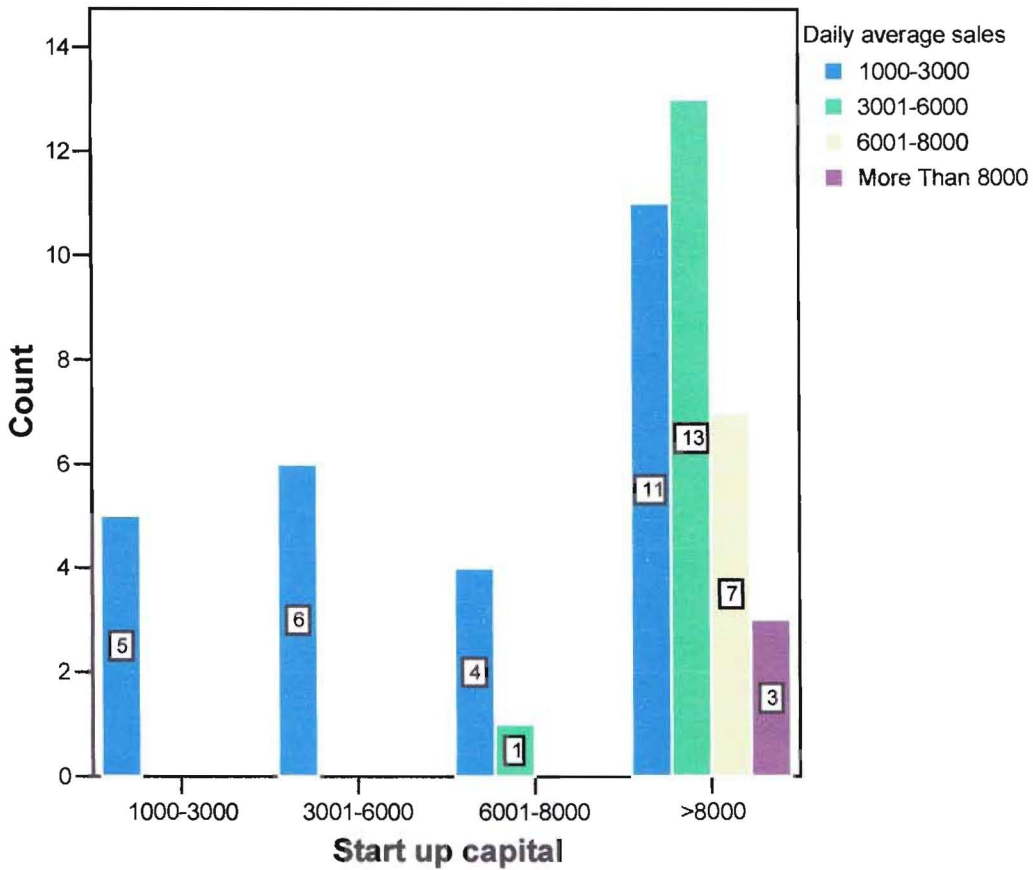
Association between Start up capital and Daily average sales:

Start up capital * Daily average sales Cross tabulation

Count

		Daily average sales				Total
		1000-3000	3001-6000	6001-8000	More Than 8000	
Start up capital	1000-3000	5	0	0	0	5
	3001-6000	6	0	0	0	6
	6001-8000	4	1	0	0	5
	>8000	11	13	7	3	34
Total		26	14	7	3	50

Bar Chart



Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.324(a)	9	.044
Likelihood Ratio	22.534	9	.007
Linear-by-Linear Association	11.315	1	.001
N of Valid Cases	50		

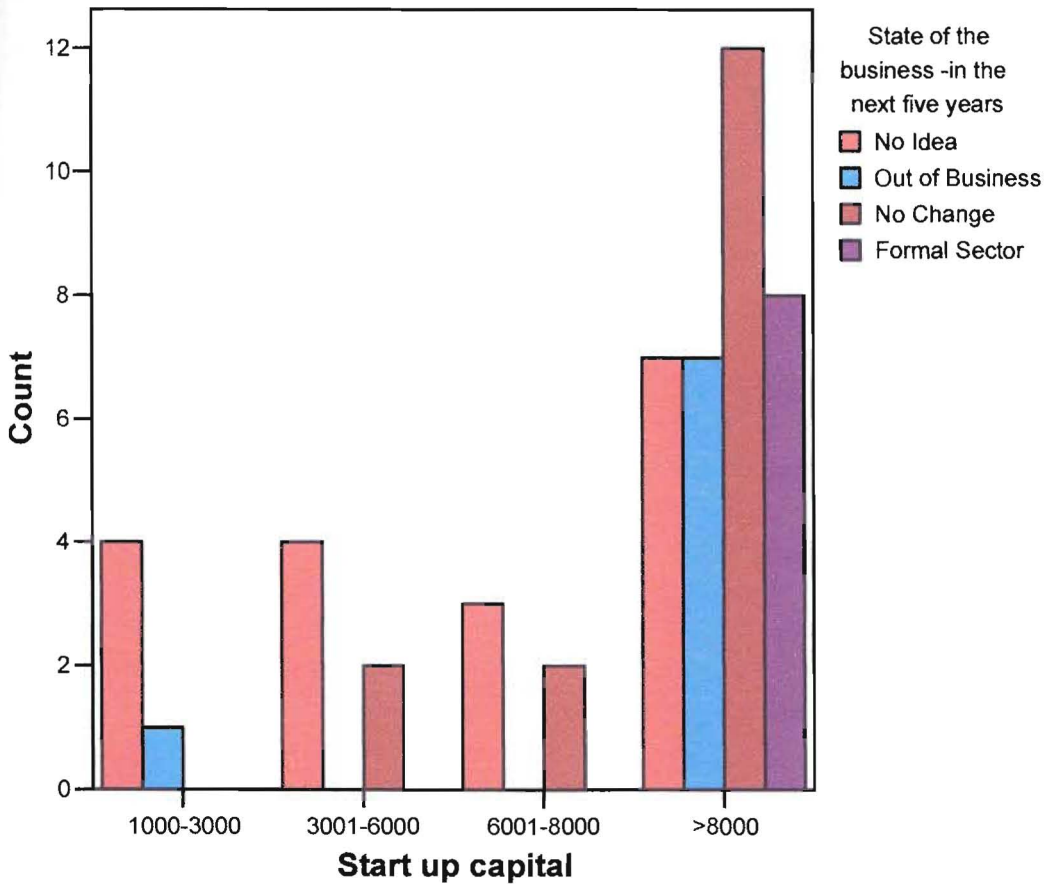
Here, P- value = 0.044, which is less than 0.05. Therefore there is significant relationship between startup capital and daily average sales at 5% level of significance.

Association between start up Capital and state of the business:

Start up capital * State of the business -in the next five years Cross tabulation

Count		State of the business -in the next five years				Total
		No Idea	Out of Business	No Change	Formal Sector	
Start up capital	1000-3000	4	1	0	0	5
	3001-6000	4	0	2	0	6
	6001-8000	3	0	2	0	5
	>8000	7	7	12	8	34
Total		18	8	16	8	50

Bar Chart



Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.140(a)	9	.087
Likelihood Ratio	20.113	9	.017
Linear-by-Linear Association	9.939	1	.002
N of Valid Cases	50		

Here, P- value = 0.087, which is less than 0.10. Therefore there is significant relationship between startup capital and State of the business -in the next five years at 10% level of significance. However the relationship is not significant at 5% level of significance.

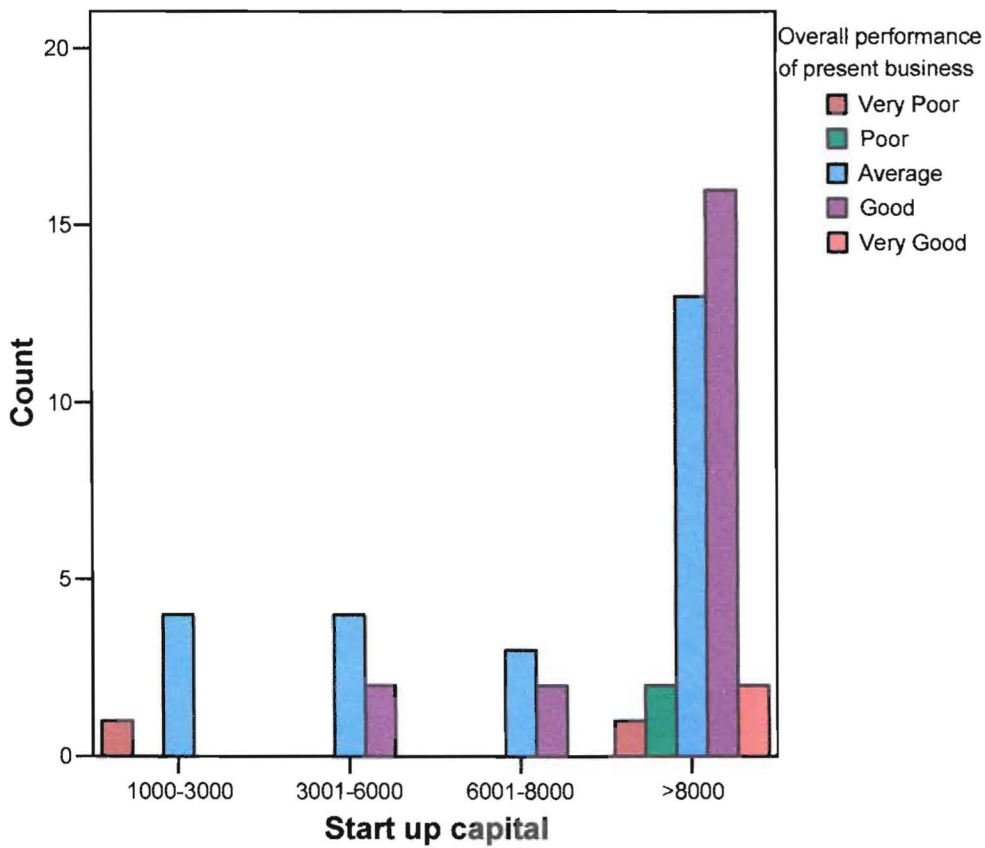
Association between start up capital and overall performance of the business:

Start up capital * Overall performance of present business Cross tabulation

Count

		Overall performance of present business					Total
		Very Poor	Poor	Average	Good	Very Good	
Start up capital	1000-3000	1	0	4	0	0	5
	3001-6000	0	0	4	2	0	6
	6001-8000	0	0	3	2	0	5
	>8000	1	2	13	16	2	34
Total		2	2	24	20	2	50

Bar Chart



Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.435(a)	12	.578
Likelihood Ratio	12.301	12	.422
Linear-by-Linear Association	3.855	1	.050
N of Valid Cases	50		

Here, P- value = 0.578, which is greater than 0.05. Therefore there is no significant relationship between startup capital and overall performance of the present Business at 5% level of significance.

Conclusion

The results of this study show that much initial financing for Informal business enterprises came from Parents and then personal savings and lastly loan from others. If financial institutions come forward to help this informal sector in simple condition than there will be much more opportunity may create. We have found that there is a significant relationship between startup capital and State of the business -in the next five years so capital should be available to improve the condition of the business. Also it is found that there is significant relationship between startup capital and daily average sales at 5% level of significance. Though no significant relationship found between startup capital and overall performance of the present Business at 5% level of significance but we can draw a line in general perspective that somehow financing is the blood of any kind of business and the success is more or less dependent on the active management of flow of fund. Also no significant relationship found between level of Education and overall performance of present business at 5% level of significance.

Questionnaire that used in survey:

Informal Enterprise Survey

Type of business:

Owner:

Length of business:

All information is used only for research purpose

Characteristics of the IS entrepreneur in Dhaka (area: -----)

1. Age

A. 20- 29 B. 30- 39 C 40- 49 D. Above 50

2. Martial

A. Single B. Married C. Divorced D. Widow

If present married then no of dependent -----

3. Level of education

A. School. B. SSC C. HSC D. Graduate E. Diploma

4. Father's occupation

A. Unemployed B. Service C. Self employed D. Other



Business Information

5. Motivation to start the business

- A. Unemployment
- B. Extra income
- C. Independence
- D. Recognition of opportunity

6. Source of your support to start the business

- A. Parents
- B. Other than parents
- C. Loan from others
- D. Personal Savings

7. Start up capital

- A. 1000- 3000
- B. 3001-6000
- C. 6001-8000
- D. More than 8000

8. Daily average sales

- A. 1000- 3000
- B. 3001-6000
- C. 6001-8000
- D. More than 8000

9. Source of the material (from where you buy products fro your business)

- A. From the retailer
- B. From the wholesaler
- C. Others (Please mention) -----

10. Method of pricing

- A. Mark-up pricing
- B. Fixed mark-p
- C. Match competition

11. Customer payment method

- A. Cash on delivery
- B. Credit
- C. Both on delivery and credit

12. State of the business –in the next five years

- A. No idea
- B. Out of business
- C. No change
- D. Formal sector

13. Overall performance of present business

- A. Very poor
- B. Poor
- C. Average
- D. Good
- E. Very good

14. Do you have any plan for business registration?

- A. Already registered
- B. Apply for registration
- C. Collect application
- D. No plan about registration

15. No of employees

A. 1-2

B. 2- 3

C. 3-5

D. More than 5



16. Do you have any hired employees if yes then number?

17. Location of the enterprise

A. Own premise

B. Other than own premise

18. Types of barrier

A. Infrastructure (Poor infrastructure such as transport, storage facilities, water, electricity. Lack of working premises.– Poorly developed physical markets.

B. Institutional issues (Lack of formal schooling sometimes even resulting in illiteracy. Limited access to land and property rights. Limited access to formal finance and banking institutions. Reliance on self-supporting and informal institutional arrangements. Too restrictive or cumbersome taxation systems and labour laws. Excessive government regulations in areas such as business startup,

C. Economic Issues (Excessive registration and transaction costs of starting or operating businesses. Lack of opportunities for bulk purchase of inputs. Lack of working capital: credit has to be obtained from informal sources such as friends or relatives or non-banking financial agencies with unfavourable terms. Insufficient funds do not allow for further investments.)

Different types of informal enterprises

Raw food vendors (Meat, Fish, Spices, Vegetables), Hotels/Restaurant, Fruit vendors, Carpentry, Civil work, Make /Repair furniture, Tailoring, Washing cars, Car repairing and maintenance, Electrical work, House painting, Plumbing, Handloom weavers, Boutiques, Mobile phone repairing, Watch repairing, Repairing of home appliances

Thank you very much for your cooperation