



International  
Labour  
Organization



INTERNATIONAL  
INSTITUTE FOR  
LABOUR STUDIES

STUDIES ON  
GROWTH WITH EQUITY



**BANGLADESH**

**SEEKING  
BETTER EMPLOYMENT  
CONDITIONS FOR BETTER  
SOCIOECONOMIC  
OUTCOMES**

STUDIES ON GROWTH WITH EQUITY

**BANGLADESH**

**SEEKING BETTER EMPLOYMENT CONDITIONS  
FOR BETTER SOCIOECONOMIC OUTCOMES**



STUDIES ON GROWTH WITH EQUITY

## **BANGLADESH**

**SEEKING BETTER EMPLOYMENT CONDITIONS  
FOR BETTER SOCIOECONOMIC OUTCOMES**

INTERNATIONAL LABOUR ORGANIZATION  
INTERNATIONAL INSTITUTE FOR LABOUR STUDIES

---

The International Institute for Labour Studies (IILS) was established in 1960 as an autonomous facility of the International Labour Organization (ILO) to further promote policy research, policy debate and the sharing of knowledge on emerging labour and social issues of concern to the ILO and its constituents — government, business and labour.

---

Copyright © International Labour Organization (International Institute for Labour Studies) 2013.

Short excerpts from this publication may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Director, International Institute for Labour Studies, P.O. Box 6, CH-1211 Geneva 22, Switzerland.

---

ISBN: 978-92-9-251025-1 (print)  
ISBN: 978-92-9-251026-8 (web pdf)

First published 2013

---

The responsibility for opinions expressed in this publication rests solely with its authors, and its publication does not constitute an endorsement by the International Institute for Labour Studies of the opinions expressed.

Copies can be ordered from: ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. For on-line orders, see [www.ilo.org/publns](http://www.ilo.org/publns)

This publication was produced by the Document and Publications Production,  
Printing and Distribution Branch (PRODOC) of the ILO.

*Graphic and typographic design, layout and composition,  
printing, electronic publishing and distribution.*

PRODOC endeavours to use paper sourced from forests managed in  
an environmentally sustainable and socially responsible manner.

Code: ALI-ATA-IMPR-DISTR

---

## FOREWORD

It is often argued that the cost of social equity is less economic growth, highlighting the supposed trade-off between these two goals. The global financial and economic crisis that erupted in 2008 – which was preceded by rising social inequalities – has shown that this is simply not the case. In fact, if properly designed, equity-enhancing policies can promote prosperity and reduce the risk of future crises. The purpose of this report on Bangladesh, published under the series *Studies on Growth with Equity*, is to discuss how such policy complementarities can be achieved in a low-income country. In particular, the report shows that Bangladesh has experienced a sustained period of economic growth, driven principally by exports in the garment sector. This has been accompanied by a shift in job creation towards manufacturing and services and a reduction in agricultural employment. Bangladeshi women have been an integral part of this transformation and have been instrumental in poverty reduction and rural development.

However, despite the strong gains in economic growth in recent years, it has not led to a marked improvement in employment conditions, especially for the millions of workers in the garment sector. Recent industrial accidents have brought global attention to severe occupational health and safety risks and also brought to the fore the issue of overall working conditions, including extremely low wages and weak social protection. In the broader labour market, underemployment and informal employment have increased during the past decade. The employment challenge is particularly acute among youth, despite rising educational attainment.

It is therefore not surprising that an increasing share of Bangladeshis, especially youth, has left the country in search of better job prospects. But here too there are major concerns as many migrants end up in precarious situations and are highly indebted. This report highlights the need for a comprehensive strategy to improve employment conditions in Bangladesh and points to a number of policy areas and recommendations intended to help the Government, employers, workers' organizations and other social partners find a development path that can realize the full potential of the country and its people and make future economic growth more equitable and inclusive through creation of more and better jobs and adequate social protection.

## ACKNOWLEDGMENTS

This report has been prepared by Sameer Khatiwada from the International Institute for Labour Studies with excellent contributions from Carolina Lennon and Clemente Pignatti Morano. The report has benefited greatly from research assistance provided by Ishraq Ahmed, Kristina Deighan and Matthew Truesdail and Social Accounting Matrix Simulations by Daniel Samaan. The study has been coordinated by Steven Tobin under the supervision of the Director of the Institute, Raymond Torres, and has benefitted greatly from stimulating comments and guidance from the ILO Deputy Director-General for policy, Sandra Polaski.

This report is an outcome of a joint project of the French Ministry of Labour, Employment, Vocational Training and Social Dialogue and the International Institute for Labour Studies (IILS) of the ILO on “Social dimensions of globalisation: Analysis and initiatives to improve the governance of globalisation”. A preliminary draft of the report was presented at a seminar organized by the IILS in collaboration with the ILO Office for Bangladesh and UN DESA on 9 August 2012 in Dhaka. The final report takes into consideration many of the comments received from national authorities (Bangladesh Bank; Bangladesh Bureau of Statistics, BBS; and Bureau of Manpower, Employment and Training, BMET; Ministry of Labour and Employment, MOLE), the social partners (Bangladesh Employer’s Federation, BEF; National Coordination Committee for Workers’ Education, NCCWE) and other stakeholders (Bangladesh Institute for Development Studies, BIDS; Centre for Policy Dialogue, CPD; Refugee and Migratory Movements Research Unit, RMMRU) during and following the seminar.

We are grateful for excellent feedback provided by ILO colleagues, especially Andre Bogui, Marva Corley, Sukti Dasgupta, James Howard, Iyanatul Islam, Stefan Kühn, Frederic Lapeyre, Shengjie Li, Malte Luebker, Nisha, Lisa Tortell and Sher Verick. Special thanks to Ejaj Ahmed (Bangladesh Youth Leadership Center, BYLC), Martha Chen (Harvard University),

---

Nurul Islam (BMET), Rizwanul Islam (former ILO official), Mustafa Kamal Mujeri (BIDS), Mustafizur Rahman (CPD) and Joann Vanek (Women in Informal Employment: Globalizing and Organizing, WIEGO). This study would not have been possible without the strong support and logistical help from the ILO office in Dhaka, particularly Banosree Biswas, Nurunabi Khan, Gagan Rajbhandari and Srinivas B. Reddy.



## TABLE OF CONTENTS

	page
FOREWORD	V
ACKNOWLEDGMENTS	VI
TABLE OF CONTENTS	VIII
LIST OF FIGURES	X
LIST OF TABLES	XII
LIST OF BOXES	XII
LIST OF ABBREVIATIONS	XIII
EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS	1
<b>Chapter 1 : Economic performance and the challenge of creating jobs</b>	<b>19</b>
Introduction	19
A. Macroeconomic developments	20
B. Labour market developments	33
C. Macroeconomic conditions for better employment outcomes	42
D. Concluding remarks	46
Appendix A. Detailed labour market indicators	48
References	50
<b>Chapter 2 : Strengthening the link between employment and development: The role of women</b>	<b>51</b>
Introduction	51
A. Status of women: Significant progress in the last few decades, but challenges remain	52
B. Labour market performance of women	64
C. Policy considerations	71
References	79

---

<b>Chapter 3 : Informality and poor working conditions: Challenge for equity and growth</b>	82
Introduction	82
A. The informal sector in Bangladesh	83
B. Factors influencing informal employment: An empirical overview	89
C. Policy considerations	98
Appendix A. Determinants of informality using principal component analysis	104
References	107
<b>Chapter 4 : Poverty reduction and social programmes: A critical overview</b>	111
Introduction	111
A. Poverty reduction in Bangladesh	112
B. Social spending: Overview and challenges	115
C. Policy considerations	122
Appendix A. Overview of major social programmes in Bangladesh	126
References	130
<b>Chapter 5 : Migrant labour abroad: Fuelling the Bangladeshi economy</b>	132
Introduction	132
A. Migration patterns: Trends and composition	133
B. Remittances: Recent trends, household and macroeconomic impact	143
C. Policy considerations: Leveraging remittances for growth and broader development strategies	151
Appendix A. Determinants of remittances in Bangladesh: An empirical assessment	158
Appendix B. Macroeconomic impact of remittances	163
References	167

## LIST OF FIGURES

	page	
Figure 1.1	Economic trends and comparisons	21
Figure 1.2	Value added by broad economic sectors	22
Figure 1.3	Agricultural productivity in selected Asian countries, 1990–2010	23
Figure 1.4	Export and import performance	25
Figure 1.5	Exports of ready-made garments by destination, 2010–11	28
Figure 1.6	Major infrastructure bottleneck – electricity	29
Figure 1.7	Savings and investment	30
Figure 1.8	FDI inflow and official development assistance (ODA) in selected Asian countries	32
Figure 1.9	Employment by sector of activity	34
Figure 1.10	Economic and employment growth, 2000s	35
Figure 1.11	Employment rates among select countries in the region, 2000 and 2010	36
Figure 1.12	Share of informal employment out of total employment, 1999–2000 to 2010	37
Figure 1.13	Employment rates among adult and youth	39
Figure 1.14	Youth and adult unemployment rate by level of education, 2010	40
Figure 1.15	Employment deficit with respect to the projected increase in working-age population by 2020	43
Figure 2.1	Progress in health outcomes, selected countries in the region	54
Figure 2.2	Educational attainment for women	56
Figure 2.3	Women in politics: Proportion of seats held by women in national parliament	59
Figure 2.4	Microfinance in Bangladesh	60
Figure 2.5	Women in the labour market	65
Figure 2.6	Employment status of women: A cross-country perspective (most recent year)	67
Figure 2.7	Monthly minimum wages in the garment industry in top apparel-exporting countries, as of August 2013, US\$	69
Figure 3.1	Informal employment as a share of total employment (percentages)	84
Figure 3.2	Wage gap: Ratio of formal to informal, 2010	87
Figure 3.3	Percentage of wage workers receiving benefits by nature of employment and type of benefit, 2010	88
Figure 3.4	Relationship between business environment and informality	91
Figure 3.5	Business and regulatory environment in Bangladesh	92
Figure 3.6	Informality and industrial development	94
Figure 3.7	Poverty and informality	95
Figure 3.8	Minimum wage in Bangladesh: Cross-country comparison	97
Figure 3.9	Eigenvalues from the PCA	105
Figure 3.10	Informal jobs vs. “component 1” from the PCA	106

---

Figure 4.1	Poverty in Bangladesh	113
Figure 4.2	Regional distribution of poverty and social spending, 2010	114
Figure 4.3	Social spending by types of programmes	116
Figure 4.4	Breadth of social protection in Bangladesh	119
Figure 4.5	Distribution of social assistance coverage across expenditure quintiles	120
Figure 4.6	Ageing population and pension coverage	121
Figure 5.1	Young people's intention to migrate permanently to another country, 2011	133
Figure 5.2	Ratio of monthly wage overseas to monthly wage at home, by class of worker, 2010	134
Figure 5.3	Annual outflow of migrants as a share of population in selected countries (percentages)	135
Figure 5.4	Stock of migrants living outside their home country	137
Figure 5.5	Annual outflow of Bangladeshi migrants by country of destination and skills, 2000–10	138
Figure 5.6	Cost of migration: Ratio of cost per person to GDP per capita, 2012	140
Figure 5.7	Remittances as a per cent of GDP, 2011	143
Figure 5.8	Reliance on people living outside the country for financial help	145
Figure 5.9	Economic importance of remittances to Bangladesh	148
Figure 5.10	Impact of remittances on savings and investment: A global overview	150

## LIST OF TABLES

	page	
Table 1.1	Annual growth rate of exports by main product at current prices	26
Table 1.2	Exports by product	27
Table 1.3	Employment shift by occupation and region	35
Table 1.4	Labour force composition	48
Table 3.1	Employment status by gender and nature of employment, 2010	85
Table 3.2	Informal employment and labour productivity by type of economic activity, 2010	86
Table 3.3	Simple regressions of informal jobs on new components from the PCA	105
Table 4.1	Top 19 programmes constituting 80 per cent of the total social spending	129
Table 5.1	Data source: Determinants of remittance	159
Table 5.2	Determinants of remittance in Bangladesh	161
Table 5.3	Data source: Impact of remittances on savings and investment	163
Table 5.4	Impact of remittances on savings and investment	165

## LIST OF BOXES

	page	
Box 1.1	Trade liberalization in Bangladesh: Towards an export-oriented economy	22
Box 1.2	Agricultural productivity in Bangladesh	23
Box 1.3	The global economic crisis: Impact and responses	26
Box 1.4	Differences among young persons: Gender and urban/rural disparities	40
Box 1.5	Simulations using a Social Accounting Matrix	43
Box 2.1	National Action Plan for Women's Advancement	52
Box 2.2	The role of educated women in development	57
Box 2.3	The case of "missing women"	58
Box 2.4	Some examples of the role of NGOs in spearheading development in Bangladesh	63
Box 2.5	Recent occupation accidents in RMG sector and the ILO's high-level mission to Dhaka	68
Box 2.6	Negative externalities of women in the RMG sector	70
Box 2.7	Women entrepreneurs in China	75
Box 2.8	Challenges facing the National Action Plan (NAP)	78
Box 3.1	Definitions: Informal economy, informal sector and informal employment	85
Box 3.2	Microeconomic determinants of informality: Cross-country evidence	90
Box 5.1	Abuse of Bangladeshi migrants	141
Box 5.2	Link between migration and development: A review of empirical evidence	146

---

## LIST OF ABBREVIATIONS

APTA	Asia–Pacific Trade Agreement
ASA	Association for Social Advancement
BAIRA	Bangladesh Association of International Recruiting Agencies
BDT	Bangladesh taka
BMET	Bureau of Manpower, Employment and Training
BRAC	Bangladesh Rehabilitation Assistance Committee
DEMO	District Employment and Manpower Office
EPZ	Exports Processing Zones
EU	European Union
FDI	Foreign direct investment
GDP	Gross Domestic Product
GJD	Gender Justice and Diversity Programme
HSC	Higher Secondary Examinations
HTA	Home Town Associations
ICLS	International Conference of Labour Statisticians
IILS	International Institute for Labour Studies
ILO	International Labour Organization
KILM	Key Indicators of the Labour Market
LDC	Least-developed country
MDG	Millennium Development Goals
MFI	Microfinance institution
MFN	Most-Favored Nation
MSME	Micro, small and medium enterprise
NAP	National Action Plan
NGO	Non-government organization
NPWA	National Action Plan for Women's Advancement
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PCA	Principal component analysis
PROGER	Brazil's Programme for the Creation of Employment and Income (Programa de Geração de Emprego e Renda Rural)
RMG	Ready-made garment
RMMRU	Refugee and Migratory Movements Research Unit
SAFTA	South Asian Free Trade Area

SAM	Social Accounting Matrix
SME	Small and medium enterprises
SSC	Secondary School Certificate
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
USA	United States of America
WARBE	Welfare Association for the Rights of Bangladeshi Emigrants

---

## EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

*In the past few decades, Bangladesh has experienced a period of sustained economic growth driven mainly by exports in the garment sector ...*

Average annual GDP growth rates rose from an average of 3.2 per cent in the 1980s to 4.8 per cent in the 1990s and then to 5.8 per cent in the past decade. This improved economic growth performance stems from a series of economic reforms carried out in the late 1980s and early 1990s in an effort to achieve economic integration with the global economy, mainly through the intensification of export-oriented production. In particular, the country has increased its specialization in the garment sector, becoming one of the main exporters of ready-made garments (RMG). As a result, in 2011 Bangladesh accounted for 4.8 per cent of global apparel exports, compared with only 0.6 per cent in 1990. Over the same period, total exports as a share of GDP increased from around 5 per cent in 1990 to over 23 per cent in 2011. Even during the financial and economic crisis, exports remained rather resilient, only falling by 2 percentage points at the height of the crisis, i.e. between 2008 and 2010. This was mainly due to the fact that consumers in the advanced economies substituted towards lower-priced apparel goods – a key market segment of the RMG sector in Bangladesh. This helped buttress overall economic activity during the crisis as GDP dropped by less than a percentage point and in 2011 had already recovered to 7 per cent.

*...but the conditions of work have been among the worst in the global garment industry.*

The growth in the last two decades has created jobs, but with harsh working conditions and low pay, including in export-related industries. Indeed, recent events in Bangladesh have brought the issue of occupational health and safety risks in the Bangladeshi garment sector to world attention, including a factory fire in November 2012 that killed 117 workers and the collapse of a building housing several RMG manufacturers in April 2013 that killed 1,129 workers – the latter being one of the worst industrial disasters on record. In response to a surge in the demand for ready-made



garments from foreign companies, suppliers in Bangladesh have established factories and manufacturing sites without following building and safety codes and the Government of Bangladesh has not provided adequate regulatory oversight and enforcement.

Bangladeshi workers earn some of the lowest wages in the world. For example, as of August 2013, the monthly minimum wage for entry-level workers in Bangladesh's garment sector was US\$ 39 per month – about half of the lowest applicable rate in other major garment-exporting countries, such as Cambodia (US\$80), India (US\$71), Pakistan (US\$79), Sri Lanka (US\$73) and Viet Nam (US\$78). And while other countries revise their minimum wages on an annual basis, Bangladesh has adjusted the RMG minimum wage only three times since it was first set in 1985 (with the last revision dating back to 2010). Following the recent disasters in the RMG sector, the Government has initiated another round of adjustments and the tripartite Minimum Wages Board is scheduled to submit its proposal by November 2013.

*Nonetheless, the shift from agriculture towards manufacturing and services has helped to reduce poverty ...*

As the garment industry expanded, employment in manufacturing doubled from 12 per cent in 1985–86 to 24 per cent in 2010. Over the same period, the share of employment in the agricultural sector fell by approximately 27 percentage points – but at close to 47 per cent remained elevated in 2010. The shift towards an employment base that is more oriented towards services and manufacturing has been accompanied by a reduction in poverty: the share of the population living under the upper poverty line as defined nationally (which includes both food and non-food items) declined from 56.7 per cent in 1991–92 to 31.5 per cent in 2010. In the same period, urban poverty was reduced by half – with the share of the urban population living below the national poverty line falling to 21.3 per cent in 2010. Rural poverty also fell considerably, albeit to a lesser extent – it decreased from 58.8 per cent in 1991–92 to 35.2 per cent in 2010.

---

Poverty has also been reduced due to significant gains in remittances flowing to households from migrant workers. In fact, Bangladesh is one of the world's largest recipients' of remittances per year – in 2011 it was 10.8 per cent of its GDP or US\$12 billion – a five-fold increase from only a decade ago. This has had important spillover effects on household consumption and poverty reduction.

*...facilitated by increased empowerment and participation of women, but the incidence of poverty remains high and social protection coverage low.*

This report shows that Bangladeshi women have been an integral part of the country's economic development. They have been instrumental in poverty reduction and rural development in Bangladesh through their active engagement in microfinance and social programmes. As of 2010, there were approximately 800 microfinance institutions (MFIs) in Bangladesh that provided credit to 27 million active borrowers – 92 per cent of whom were women (mainly in rural areas).

This comes on the heels of the progress Bangladesh has made in bridging the gender gap across several areas such as health, education and political participation. For example, among the many dimensions of health, life expectancy among women has risen dramatically in the last three decades, increasing from 54 years in 1980 to 69 years in 2010 – one of the largest increases in the region. Part of this success is a result of the National Action Plan for Women's Advancement (NPWA), implemented as early as 1997 with a view to addressing the persistent asymmetries in socio-economic status of women (and enhanced by mandatory political representation for women in Parliament at the national level).

While poverty according to national estimates has declined, many Bangladeshis do not earn enough to lead to sustained improvements in poverty. In fact, as of 2010, 76 per cent of the population lived on less than US\$2 per day – the highest share in the region. As a result, in 2011 – at 30 per cent – Bangladesh was among the countries with the highest share of the population reliant on financial help from abroad.

Furthermore, Bangladesh's social protection coverage is among the lowest in the region. For example, even among the poorest quintile, less than 40 per cent are covered by social assistance. Urban poor tend to be left out of social assistance – only a very small fraction are beneficiaries of social programmes (9.4 per cent of all urban poor in 2010). In fact, a large fraction of social assistance goes to non-poor households (close to 10 per cent of the social assistance spending goes to the richest quintile).

### *Formal job creation has been rather lacklustre ...*

Despite the strong economic performance that has characterized the Bangladesh economy in recent years, there has been little improvement in the overall labour market situation. Between 2000 and 2010 when GDP growth averaged nearly 6 per cent, the employment rate (ratio of employment to the working-age population) actually fell 1.7 percentage points to stand at roughly 67 per cent in 2010.

One of the main challenges to creating enough employment opportunities is related to the fact that the working-age population has grown at a rate of more than 2 million people per year over the past two decades and is expected to grow at a rate of 2.2 million per year over the next decade. Yet formal job creation has averaged only 200,000 per year in the past 10 years. As a result, the incidence of informal employment increased from 75 per cent in 1999/00 to 87 per cent in 2010 – the highest in the region. Moreover, not all of the formal jobs are full-time. In fact, underemployment – defined as employment of less than 35 hours per week – is pervasive. In particular, the rate of underemployment increased from 16.6 per cent in 1999–2000 to 20.3 per cent in 2010.

The employment challenge is particularly acute among youth, despite gains in educational attainment (the percentage of youth completing secondary education increased from 9 per cent in 1990 to 35 per cent in 2010). In fact, in 2010 the gap between youth and adult employment rate stood at roughly 20 percentage points and has risen further in recent years. More troubling is the fact that unemployment increases with educational attainment. For

---

instance, in 2010 the unemployment rate was 14 per cent among youth with secondary education, rising to 25 per cent for youth with a postgraduate degree. And despite the considerable progress with respect to female engagement and empowerment, the gender gap in employment rates in 2010 was still a disappointing 32 percentage points in 2010 – for men the employment rate was 90 per cent, while for women it was 58 per cent. Moreover, counter to the prevailing trend in the region, the evidence in Bangladesh points to the fact that this gap has widened in the recent years.

*...as a result, many Bangladeshis, especially youth, leave in search of better employment prospects ...*

Faced with limited, and often poor, employment prospects at home, it is perhaps not surprising that the intention to migrate among Bangladeshi youth is the highest in comparison with other countries in South Asia and most countries in South East Asia. Based on a survey conducted in the region among 15–24 year olds, 35 per cent of Bangladeshis want to move permanently abroad, while among 25–34 year olds, 25 per cent of Bangladeshis want to move abroad (considerably higher compared with countries such as India and Viet Nam). Indeed, the annual outflow of Bangladeshis overseas increased four-fold – from around 248,000 in 1999–2000 to 981,000 in 2007–08. The surge started in 2005–06, driven mainly by the labour demand from the Gulf countries. In the aftermath of the financial and economic crisis, the annual flow of workers abroad declined but it is still – at 427,000 in 2009–10 – close to double that of a decade ago.

The prospect of higher earnings appears to be a main pull factor. Workers in the professional category earn close to three times more per month abroad what they would earn in Bangladesh – US\$868 instead of US\$320; in the unskilled category, earnings abroad are close to double what they are at home – US\$160 instead of US\$89.

*...but many migrants take on large debts to emigrate and are confronted with difficult working conditions.*

In the pre-departure phase, there are reported cases of abuse that take place at the hands of some of the recruiting agencies that charge exorbitant- fees and provide opaque contracts. There is a very limited understanding among migrants regarding the nature of jobs, wages, and working conditions abroad. Consequently, Bangladeshi migrants pay some of the highest recruiting fees in the region – the average cost per person going abroad for work is 4.5 times higher than the annual GDP per capita of Bangladesh. This compares badly with, for example, Nepal – which sends a larger share of its population abroad than Bangladesh – where the cost is only 2.5 times higher than its GDP per capita. In the cases of India and Thailand, the cost of migration is roughly the same as the GDP per capita. As a result, many Bangladeshi migrants are forced to take on large debts to emigrate – 11 per cent of the remittance goes to the repayment of loans incurred to migrate.

In the destination countries, migrant abuse takes the form of considerable delays in the payment of wages (one month or more), in wages often being below the minimum wage, lack of social protection and benefits, and in some instances deplorable working conditions. Surveys conducted among workers returning from the Middle East show that the late receipt of wages is particularly common among migrant workers.

*Going forward, Bangladesh will need to improve domestic labour market conditions, first, by enhancing the quality of work ...*

The most important objective of labour market and social policies in Bangladesh in the short run should be to focus on improving employment prospects and working conditions at home. If concrete measures are not taken in this direction, the country risks losing its main source of exported growth – namely, the RMG sector. For example, the United States recently suspended trade privileges for Bangladesh (breaks on tariffs under the Generalized System of Preferences of the WTO), other countries could follow suit. The severity and frequency of industrial accidents in the sector has increased to the point that it may be acting as a deterrent to international buyers and investors. The establishment of a National Tripartite Plan

---

of Action on Building and Fire Safety in the Ready-Made Garment Sector (NAP), negotiated during a high-level mission by the ILO to Dhaka after the Rana Plaza building collapse, and the “Accord on Fire and Building Safety in Bangladesh,” signed by international retailers and trade unions could begin to address these challenges if they are fully and promptly implemented. The objective of these agreements is to ensure a safe garment sector where workers can work without fear of fire, building collapse, or other such accidents. However, even if these agreements are carried out, they are only part of a broader strategy that is needed to improve both employment opportunities and conditions. The following measures are among those needed:

- *Improve occupational health and safety:* It is important to address the working conditions of both formal and informal workers. As highlighted by the accord and the ILO’s mission, there are several concrete measures that can be taken immediately to reduce safety and health risks for workers. In particular:
  - There is an urgent need to *inspect all the existing factories in the RMG sector*. As the ILO’s high-level mission to Dhaka pointed out, some of the factories will need to relocate to safer buildings while the existing ones are being inspected and repaired to ensure safety and reliability. Even in those that are deemed safe, measures need to be taken to prevent factory fires. As the case of Tazreen Fashions in Dhaka demonstrated, many factories in Bangladesh are unprepared to deal with fire or other potential dangers. The National Tripartite Committee established to carry out the NAP will establish a technical sub-committee to focus on the structural integrity of buildings and fire safety, including practical details as to how inspections will be carried out. These steps must be undertaken with urgency.
  - The *institutional capacity* of the Government to conduct the regular labour inspection of factories across Bangladesh must be greatly strengthened. The ILO negotiated agreement calls for 200 labour and factory inspectors to be appointed by the end of 2013 and the recruitment of another 800 inspectors in 2014; the upgrading of the Department of Chief Inspector of Factories and Establishments to a

Directorate with an annual budget to run its regular activities; and the necessary infrastructure for its proper functioning.

- In parallel, the country should *adopt international labour inspection standards*, particularly allowing inspectors to initiate civil proceedings against violators. Countries in the region such as Indonesia, Malaysia and Viet Nam, where the inspectors are trained and given the authority to initiate civil proceedings and levy fines against violators, could serve as models for Bangladesh.
- *Promote freedom of association and social dialogue*: There is a need to bring together social partners and build a consensus around a minimum set of standards that are internationally accepted. This is important not only for designing policies, but also for enhancing compliance and enforcement. Compliance with labour laws and regulations is particularly weak in the RMG sector, where freedom of association has not been protected and where unions virtually do not exist. Where workers are able to organize they can more effectively defend their own rights and interests, in terms of wages, working conditions and health and safety. There needs to be a strong political commitment to the enforcement of labour laws and regulations.
- *Strengthen collaboration between international buyers and their supply chains*: Significant progress was made in this regard in May 2013 when over 50 of the international retailers who buy from Bangladesh signed an “Accord on Fire and Building Safety in Bangladesh” with international trade unions, making enforceable commitments to inspect supplier factories, assist in prompt remediation of risks and cancel orders if suppliers refused to make necessary repairs. Given the importance of the RMG sector to exports and the national economy, the Government, industry and national trade unions will need to work closely with the international enterprises to ensure that Bangladesh remains a viable place to do business while protecting worker safety. Some international companies have already taken the lead in this by working with suppliers to ensure improved safety in the industry while remaining committed to developing the RMG sector in Bangladesh.

- 
- *Strengthen wage formulation, notably the role of minimum wages:* Bangladesh has the lowest wages in the RMG sector of any major exporting country. In recent years, the Minimum Wages Board has expanded coverage of minimum wages to 42 sectors and revised a substantial number of wage rates. However, wage adjustments have remained infrequent and unpredictable. In the interim, inflation erodes the purchasing power of workers' wages, while employers have to adapt to sudden and large nominal increases. In the garment sector, in particular, adjustments are usually adopted only after mass protests and strikes that disrupt the industry. Both workers and employers would gain from more regular and predictable revisions that bring wages in line with workers' needs and industry standards world-wide.
  - *Social protection:* One of the ways to reduce poverty is to create a universal social protection floor. Many least developed countries (LDCs) have embarked on national programmes to extend social protection coverage as part of their development agenda, and this has had a measurable impact on income and poverty. In addition to the broader needs for income protection for poor and vulnerable households, the frequency of work-related accidents in Bangladesh, particularly in the RMG sector, suggests an urgent need for social insurance to cover workplace injuries.

*...complemented by, second, removing obstacles to investment in order to stimulate job creation across a number of sectors.*

Low labour productivity is often regarded as a symptom of under-development. However growth of labour productivity varies widely among low- and lower-middle income countries. In Bangladesh, the rate of labour productivity growth, as measured by GDP per hour worked, increased from 1.1 per cent to 1.8 per cent between 1990 and 2010. Meanwhile, for other countries in the region, such as India and Viet Nam, it more than doubled in the same period to 3.8 per cent and 2.8 per cent, respectively. This is attributable in part to the fact that productive investment has stagnated in Bangladesh in the last 10 years – it increased by only 2 percentage points in this period, while the level currently stands at 25 per cent of GDP, lower than most other countries in the region.



There are also risks associated with an over-reliance on the RMG sector. If an export-oriented strategy were to include the promotion of underperforming sectors with strong export potential – e.g. shrimp, leather and jute products and shipbuilding – then economic growth would be less vulnerable to downturns in a single sector or export market. This would also encourage employment diversification. The Government of Bangladesh is already engaged in promoting efforts along these lines. In particular, the 2006 Labour Act and the Sixth Five Year plan for 2011–15 underscore the need to promote production in other sectors and create more avenues for employment creation. Some of the policy interventions that could boost productive investment, thus unlocking the productivity potential across a range of sectors, include:

- *Role of macroeconomic policies in boosting the production base:* Fiscal policy can play an important role in providing incentives for investments in infrastructure and productive capital and disincentives for investments in non-productive capital (real-estate investments, financial assets held for speculative gains, etc.). Most importantly, there is a general need in Bangladesh for a broad-based industrial policy to reduce excessive sectoral concentration in production (such as ready-made garments) and promote sectors that are incrementally more capital- and skills-intensive.
- *Increase productivity in the agricultural sector:* While encouraging the shift to more productive sectors is essential, agriculture will still play an important role in the economy, with almost half of all employment still found in that sector. It is therefore important to improve working conditions and increase productivity in the agricultural sector. Technical progress and investments are crucial in order to promote agricultural diversification – which decreases economic risk and increases productivity – and to provide fair and adequate access to land. This is all the more important because the bulk of the workforce is still unskilled and lives in rural areas.
- *Tackle infrastructure bottlenecks:* The recent industrial disasters in Bangladesh have highlighted the issue of sub-standard building and the country's lack of preparedness in handling the production demands of a global economy. For example, the share of enterprises in Bangladesh

---

reporting access to electricity as the major constraint facing their businesses is 78 per cent, the highest in the region. The unreliability of electrical power in Bangladesh results in a loss of production. Indeed, Bangladeshi enterprises report losses of over 10 per cent of annual sales due to electrical outages. Studies have shown that a reliable supply of electricity could increase annual job creation by 4–5 per cent. For a country facing difficulty in creating enough formal sector jobs, ensuring a reliable supply of electricity would be a welcome step. Furthermore, removing infrastructure constraints is critical to maintaining the trust of foreign companies and remaining globally competitive.

- *Create a government base to fund pro-jobs programmes:* Government revenues constituted 10 per cent of GDP in 2011 – lower than other countries in the region such as Indonesia (11.8), Malaysia (15.3), Nepal (13.2), Philippines (12.3) and Thailand (17.6). Improving tax collection and broadening the tax base will help in creating the funds necessary to support both public infrastructure investment and badly needed social protection programmes. Moreover, the sustainability of the current employment generation programmes could be strengthened with higher tax revenue.

*Third, these measures will need to be complemented by efforts to improve education and skills matching ...*

In order to make the transition towards a more inclusive economic growth pattern where labour productivity is higher and the export products more diversified, it will be vital to have an educated and trained workforce, ready for jobs in higher value-added sectors. The country has already made considerable progress in terms of educational attainment, but further efforts are needed to leverage the existing skills base and to increase the rate of tertiary education. In fact, recent improvements in education are mainly due to primary and secondary school enrolments – the enrolment rates for tertiary education are still below that of many other countries in the region.

Training young people to take up jobs in new, higher productivity growth sectors should be complemented by public efforts to facilitate the matching of labour supply to emerging labour demand. This is required in order to

capitalize on higher educational outcomes and to improve employment opportunities. The Government should favour the coordination of the labour market with the educational and training systems, in particular:

- *Raise educational attainment among women:* Bangladesh has made notable progress in achieving the Millennium Development Goals (MDGs), but educational attainment, particularly among women, lags behind. One of the main obstacles to better employment opportunities for women is that most finish only primary education. As a result, most women can only aim at low-skilled positions, while their incentive to leave the labour market and be employed instead in household activities is high. In order to meet the demands of an increasingly industrialized production, it is important to educate women beyond primary education. In addition, the education system should provide more vocational and technical training. In that regard, the ILO's technical and vocational education training (TVET) programme could further assist in providing competency based training, introducing a national framework for academic qualifications and increasing access to trainings for underprivileged groups.
- *Augment resources for training and enhance their effectiveness:* The government has several different policies for promoting training – the Department of Youth Development (DYD) has been providing skill development training since 1981; by recent estimates, around 3.4 million people have benefited from its programmes. It currently operates 111 training centres throughout the country and in 2009–10 about 227,000 youths were trained in these centres. But the impact of this training reaches only about 10 per cent of the 2 million yearly entrants to the workforce. Moreover, many of these centres are underfunded and do not provide skills that are actually transferable to the job market. There is ample room to not only enhance the impact of these training programmes but also to expand their coverage to include a larger share of the new entrants to the labour market. An interesting example comes from Japan – the “Job Card System” launched in 2008; it is designed to offer youths other ways of receiving training, by allowing unem-

---

ployed youth to get on-the-job training from participating companies. Candidates receive a card demonstrating their attendance as well as an evaluation of their training experience from the company.

*...as well as special measures to address the high incidence of informality.*

As this report shows, a lower incidence of informality is associated with a better and more competitive business environment. In order to ensure that future growth translates into more formal job opportunities, it is important to tackle the high incidence of informality by: (i) enhancing the business environment and promoting investment that stimulates formal job creation; (ii) encouraging the formalization of informal enterprises and informal jobs, including through programmes that better link microenterprises to microfinance; and (iii) improving working conditions and increasing the returns of those who continue to operate informally. In particular:

- *Introduce a one-stop shop for businesses:* Government support services to businesses are fragmented and entrepreneurs are often unaware that such services exist in the first place. There are good examples from other countries in the region that Bangladesh can draw upon to put in place one-stop shops that help enterprises identify high-potential sectors, determine both the constraints and opportunities for market expansion, etc. The ILO's Way Out of Informality project, currently operational in Bangladesh, India and Nepal, has played an important role in facilitating formalization of informal businesses and discouraging informalization of formal businesses. However, given the scale of the problem in Bangladesh, more needs to be done to tackle informality.
- *Provide help with starting and running a business:* Entrepreneurs running micro, small, and medium enterprises (MSMEs) need help with business skills, market access for their goods and services, and potential areas of expansion and growth. For example, with the help of the ILO, Cambodia, Laos and Sri Lanka have developed one-stop shops to provide assistance to MSMEs. They offer specific help with getting a business licence, buying or leasing land and property, compliance with the tax codes, getting export permits, etc.

- *Improve access to credit, especially during the growth phase:* It is important to remove financing constraints for enterprises and make taxation less of a hurdle for formal start-ups. The lending rate in Bangladesh has come down in the last few years, but it is still higher than in countries such as Indonesia and Viet Nam. The government, through the central bank of Bangladesh, could put in place a policy of lending at a reduced rate for the first 3 years of operation. In so doing, it is also important to establish an entity that assesses the viability of business plans and the likelihood of their being profitable. In other words, to establish a governmental version of venture capital that assesses the business plans of would-be entrepreneurs.
- *Provide loans to micro-enterprises conditional on operating formally:* The unique features of micro-finance such as group lending and collective monitoring could be leveraged to ensure that enterprises operate formally. MFIs, in collaboration with the government, can establish a ‘rewards system’ which provides preferential interest rates to firms operating formally and these could be made conditional on the time period of operation.
- *Extend protection to informal workers:* One of the key ways to improve the working conditions of informal workers is by moving towards a universal social protection floor, which has a twin effect of addressing poverty, while in the medium to long run reducing informality by narrowing the tax wedge for formal jobs (discussed in chapters 3 and 4). In the short term, a number of immediate measures could be envisioned to improve coverage for informal workers. For example, some low-income developing countries have implemented schemes that provide access to health care for workers in the informal sector. In Tanzania, a mutual health scheme called UMASIDA was established in 1995 to minimize the problem of restricted access to health-care services by workers in the informal economy. UMASIDA is a community-based insurance model, where the policyholders themselves are the owners and managers of the insurance programme.

*Finally, to ensure that the transformation is inclusive, measures will also be needed to leverage migration and remittances for broader development objectives.*

---

Migration has played an important role in Bangladesh's economic development and growth in recent years and, going forward, remittances will continue to make a significant contribution to household and national income. Yet, in order to maximize the development impact of migration and remittances, there is a need to adopt a comprehensive approach to migration. In that regard, the ILO's conventions on labour migration and their accompanying recommendations provide a basic framework for the components of labour migration policy, the protection of migrant workers and measures to facilitate as well as to regulate migration movements. In particular:

- *Pre-departure policies:* First, it is important to engage would-be migrants before they leave Bangladesh. This could be achieved through the provision of orientation courses and migrant resource centres. It is important to provide them with pre-departure counselling regarding working conditions abroad, goals and objectives of migrating, potential remittance transfer and savings options and other financial/investment services. For example, a pre-departure orientation course would disseminate important information about the migratory process and the legal and cultural aspects of various destination countries. Such a programme started in the Philippines in 1983 offers two orientations: (i) a pre-employment orientation seminar aimed at those who have not yet decided to migrate and (ii) a pre-departure orientation seminar for those who will soon leave.
- *During the stay abroad:* When the migrants are in their country of destination, the Government through its embassies and consulates can provide basic services such as how to adjust to the new environment, language support and legal support. Indeed, Bangladesh has 21 labour attachés in 16 missions, but it is important to provide adequate training on issues related to migrants to the foreign ministry staff before they leave on their diplomatic missions. This should include, for example, training on the labour laws in the destination country and those regulations related to safety at the workplace. In the meantime, it is important that the Bangladeshi Government put in place bilateral agreements ensuring a safe environment for workers. In this respect, Bangladesh must first itself ratify the ILO Convention on Decent Work for Domestic Work. Only

with ratification at home, can Bangladesh fully engage with destination countries and encourage them to ratify the Convention and thereby ensure the safety and security of workers while abroad [Migration for Employment Convention (Revised), 1949, No. 97].

- *Improve re-integration upon return:* With the return of workers from the Gulf countries and elsewhere, there is the issue of the reintegration of the returnees back into the domestic labour market. In this respect, it is important to improve the linkages between the returnees and their potential employers. A first step to this end would be to keep a database of the skills profiles of returnees. Also, providing business and entrepreneurship training to the returnees can facilitate better use of the financial resources of a migrant. The Bureau of Manpower Employment and Training (BMET), through its District Employment and Manpower Offices (DEMOs), needs to have clear guidelines to do this, with increased financial resources and staff.
- *Strengthen government institutions and partnering with civil society organizations:* Currently, the BMET, through its 42 DEMOs, is supposed to deliver migration policies and programmes, but studies show that these DEMOs lack adequate funding. DEMOs and the BMET need adequate resources to provide the necessary services to migrants. In the meantime, the Government should continue working with civil society organizations to deliver migration policies and programmes.
- *Ensure effective regulation of migration process:* Bangladeshi migrants pay some of the highest recruiting fees in the region – the average cost per person wishing to go abroad for work is 4.5 times higher than the GDP per capita for Bangladesh. Not surprisingly, more than 10 per cent of remittances go towards repaying the debt incurred by migrants. The Government should better enforce the current regulation on recruitment fees and raise awareness regarding the fee structure among would-be migrants. However, there is a need for stricter regulations governing recruiting agencies, backed up by the regular monitoring and evaluation of their work.

- 
- *Better utilizing savings and investment vehicles:* At the heart of effective migration policy lie programmes to channel remittances to investment and development purposes, and in this respect there are several policy measures available to the government, some of which are already in operation in Bangladesh. However, this report shows that the increase in national savings due to remittances has not translated into investment in Bangladesh. One way to encourage remittance use for development has been pioneered by Mexico, where the government matches every dollar that overseas migrant groups or Home Town Associations (HTAs) remit back to the country. Through this approach Mexicans living abroad use HTAs to support development efforts at home. Similarly, the Bangladeshi Government could provide investment schemes in the form of preferential treatment for migrants that buy land, build businesses, buy machinery and equipment, etc.

Bangladesh has made important strides towards becoming a more open and market-oriented economy. But to achieve an inclusive and sustainable development path, Bangladesh must better harness its GDP growth by enhancing employment prospects and improving working conditions, especially in the RMG sector, while augmenting productivity and diversifying exports. Given that one of the main constraints facing enterprises in Bangladesh is a lack of skilled workers, it is important to raise educational attainment and generate a better-trained workforce, particularly for higher-value-added production. This should be complemented with a comprehensive labour migration policy to leverage the increase in remittances towards achieving Bangladesh's development needs. Lastly, in order to ensure that the gains from economic growth are shared equitably, social protection programmes must be extended both in terms of their coverage and adequacy.





---

# **CHAPTER 1**

## **ECONOMIC PERFORMANCE AND THE CHALLENGE OF CREATING JOBS**

### **INTRODUCTION**

Since the 1990s, Bangladesh has undergone an economic transformation during which time a number of trade barriers were eliminated or reduced. As such, international trade has become a prominent source of national income which has produced a parallel shift in the labour market – increasing the share of employment in industry and services at the expense of employment in agriculture. Despite this transformation, the record growth rates have been inadequate to absorb the growing numbers entering the workforce each year. As a consequence, informal employment remains high and underemployment is pervasive – which poses particular challenges for youth and women.

The main task of this chapter is to assess the employment outcomes of this transformation and economic progress. In particular, section A looks at the macroeconomic performance of the economy over the past two decades and section B examines the extent to which the improved growth performance has led to better outcomes in terms of job quality and quantity, paying particular attention to the labour market challenges confronting Bangladeshi youth. With this in mind, section C presents estimates on potential employment outcomes in response to different growth scenarios. Furthermore, this section looks at the impact on employment to changes in the export portfolio and the importance of stimulating investment. Lastly, section D will provide concluding remarks and introduce the remainder of the report.

## A MACROECONOMIC DEVELOPMENTS

### *Sustained economic growth has characterized the last decade ...*

The reforms towards a more market-based economy implemented during the 1980s and the process of trade liberalization that occurred in the 1990s have paved the way towards greater modernization of the Bangladeshi economy (Box 1.1). In particular, GDP growth increased from 3.3 per cent in 1991 to close to 5 per cent by the end of the 1990s, 6 per cent by 2005 and 6.7 per cent in 2011 (Figure 1.1, panel A). The consensus forecast for GDP growth for the next 5 years is between 6 and 7 per cent.<sup>1</sup> The growth performance in the last two decades is particularly impressive considering that in the 1970s and the 1980s the country registered a growth rate of only 2 per cent a year. Meanwhile, despite the strong performance – at least from a historical perspective – in comparison with other countries in South East Asia, Bangladesh's average growth rate for the years 2000–11 – at 6 per cent – is roughly on par with its counterparts in the region (Figure 1.1, panel B).

### *...mainly driven by gains in the industrial sector.*

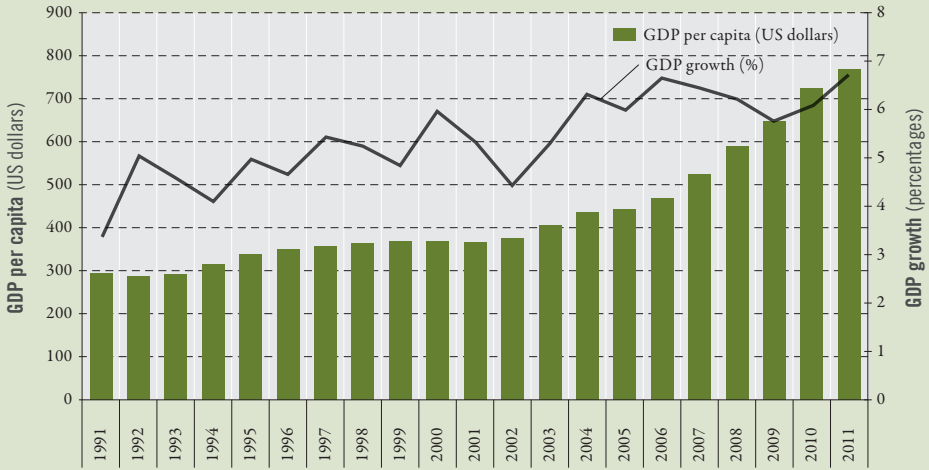
The industrial sector has been the main driver of the trend increase in growth. Indeed, the integration of Bangladesh within the global economy has mainly been achieved through the intensification of export-oriented production, notably in the manufacturing industry. In particular, the country has increased its specialization in the ready-made garment (RMG) sector, becoming one of the main exporters of RMGs worldwide. In 2011, Bangladesh accounted for 4.8 per cent of global apparel exports, compared with only 0.6 per cent in 1990.

By contrast, the relative importance of more traditional bases of production – especially in the agricultural sector – has declined. In particular, the value added by the agriculture sector declined from 30.3 as a percentage of GDP in 1990 to 25.5 in 2000 and 18.5 in 2010 (Figure 1.2). However, despite the declining importance of the sector, agricultural productivity per hectare

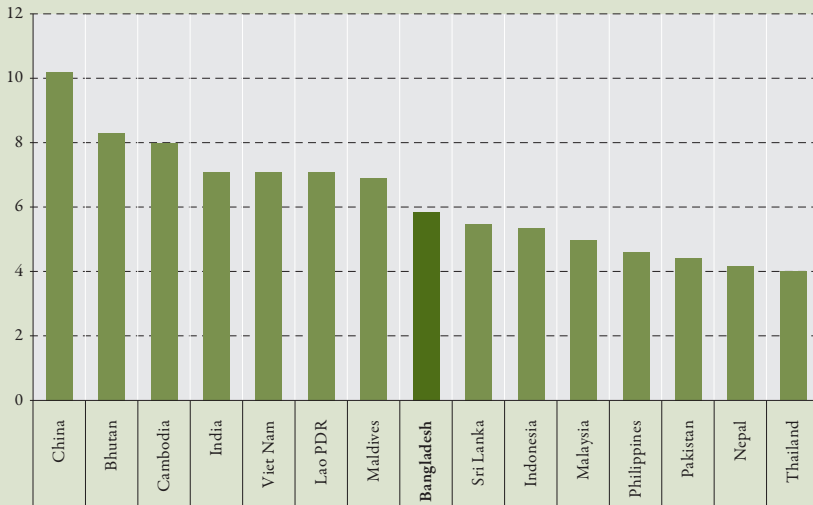
<sup>1</sup> Source: the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF).

Figure 1.1 Economic trends and comparisons

Panel A. GDP growth and GDP per capita for Bangladesh, 1990–2011



Panel B. Average GDP growth among select countries in Asia, 2000–2011



Source: IILS estimates based on the World Development Indicators.

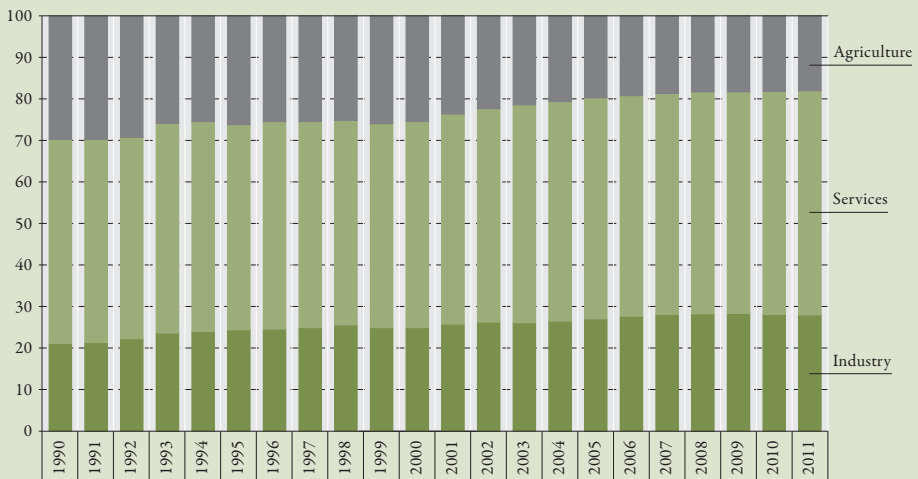
**Box 1.1 Trade liberalization in Bangladesh: Towards an export-oriented economy**

During the 1990s, the government started a gradual process of trade liberalization. The share of import goods subject to quantitative restrictions declined from 33 to 10 per cent between 1988–89 and 1992–93, while the average tariff rate for imports declined from 60 to 21 per cent between 1991–92 and 1997–98. The process of reducing tariffs has continued in the past decade: since 2000–01 Bangladesh has been following the Most-Favored-Nation (MFN) tariff scheme, and the MFN unweighted import average decreased from 21.4 in 2000–01 to 14.9 in 2009–10.

In addition, the government eased considerably the bureaucratic burden related to international trade. For example, between 2005 and 2011, the number of days needed to export decreased from 35 to 25, while the number of days needed for import declined from 57 to 31. In addition, regional trade agreements such as the Asia-Pacific Trade Agreement (APTA), the South Asian Free Trade Area (SAFTA) and the Trade Preferential System among OIC countries (TPS-OIC) have facilitated international trade with main regional counterparts.

Finally, the growth in Bangladesh’s exports is also the result of the creation of the so-called Exports Processing Zones (EPZs). EPZs are industrial areas in which imports and exports benefit from a reduction in duties and/or are subject to minimal intervention by custom officials. In Bangladesh, EPZs were established in the 1980s – the first being in Chittagong in 1983 – and have since grown in importance. There are currently eight EPZs in Bangladesh that account for 16 per cent of total exports.

**Figure 1.2 Value added by broad economic sectors (percentages)**

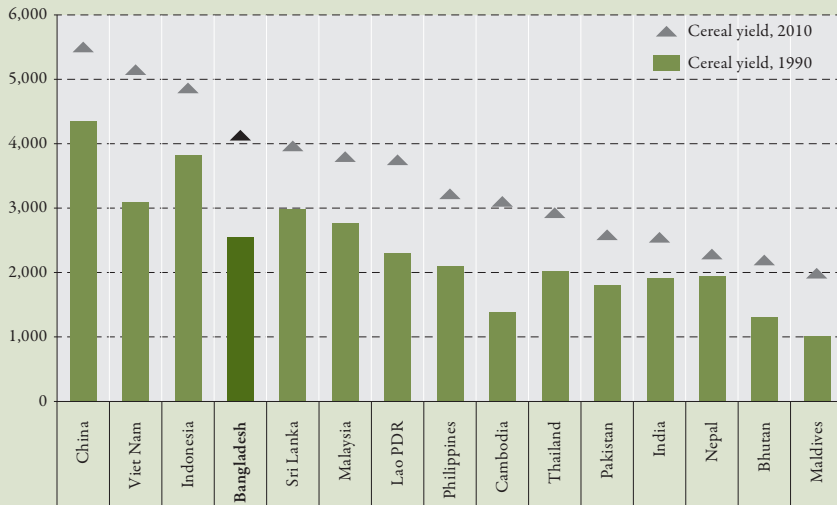


Source: IILS estimates based on the World Development Indicators.

**Box 1.2 Agricultural productivity in Bangladesh**

Bangladesh stands out from other countries in Asia because of the progress it has made in terms of enhancing its agricultural productivity. For example, cereal yield per hectare – which accounts for roughly three-quarters of agricultural production – increased from 2,490 kilograms in 1990 to 4,143 kilograms in 2010 (Figure 1.3). The only other country registering a bigger increase in per hectare yield was Viet Nam. Yet, in terms of overall food production index, Bangladesh performs better than Viet Nam. Indeed, based on these two indicators, Bangladesh ranks high in the region in terms of overall productivity, partly due to the increased reliance on irrigated dry period high-yield variety boro rice (the other variety produced in Bangladesh is aman rice). However, despite the declining share of national income coming from agriculture, the sector continues to account for over 50 per cent of total employment (see section B).

**Figure 1.3 Agricultural productivity in selected Asian countries, 1990–2010**



Note: Cereal yield, measured as kilograms per hectare of harvested land, includes wheat, rice, maize, barley, oats, rye, millet, sorghum, buckwheat, and mixed grains. Production data on cereals relate to crops harvested for dry grain only. Cereal crops harvested for hay or harvested green for food, feed, or silage; those used for grazing are excluded. The Food and Agriculture Organization allocates production data to the calendar year in which the bulk of the harvest took place. Most of a crop harvested near the end of a year will be used in the following year.

Source: IILS estimates based on the World Development Indicators.

in Bangladesh has also improved considerably (Box 1.2). Meanwhile, almost the entire decline in agriculture sector's value added to the economy was picked up by the industrial sector. For example, industry's value added increased from 21.5 in 1990 to 25.3 in 2000 and 28.5 in 2010. Lastly, the service sector in Bangladesh continues to remain the largest sector and has increased in importance in the past decade – from 49 per cent of GDP in 2000 to 53 per cent in 2010.

*Trade has become an important source of national income, although it remains low in comparison with other Asian countries ...*

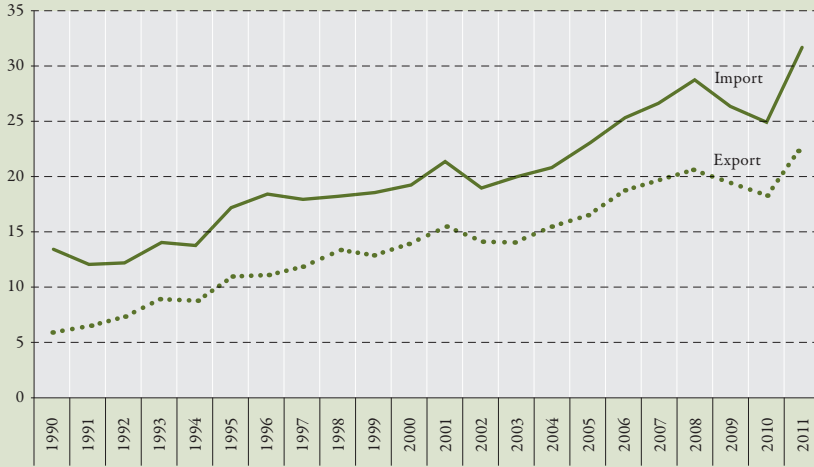
Following the gradual process of trade liberalization in the 1990s, the importance of international trade has grown: exports as a share of GDP increased from 6.1 per cent in 1990 to 14 per cent in 2000 and 23 per cent in 2011. Meanwhile, imports as a share of GDP also rose from 13.5 per cent in 1990 to 31.6 per cent in 2011 (Figure 1.4, panel A). As such, with imports outpacing exports, Bangladesh runs a persistent trade deficit.

Due to the financial and economic crisis, there was a slight slowdown in both exports and imports in 2009 and 2010. This stemmed mainly from the weakened external demand from the United States and the European Union. However, Bangladeshi exports demonstrated higher resilience than other countries in the region (e.g. India). The measures implemented by the government in order to sustain exports during the crisis proved to be helpful (Box 1.3). Also, consumers in the advanced economies substituted towards lower-priced goods, and a large share of the RMG exports from Bangladesh go to the apparel companies that focus on lower-end clothing items. As a result, the recovery in exports was relatively quick, reaching new highs as a share of GDP.

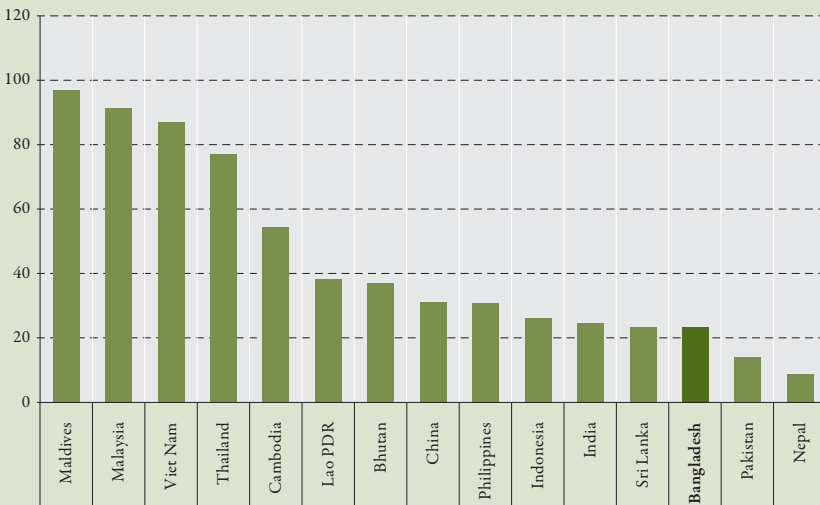
While Bangladesh has made important strides in increasing its export of goods and services, it lags behind most of the big economies in South East Asia – exports stood at 22.9 per cent in 2011, which is lower than most countries in the region (Figure 1.4, panel B). Indeed, exports as a share of

Figure 1.4 Export and import performance

Panel A. Bangladesh's exports and imports as a share of GDP (percentages)



Panel B. Export of goods and services as a share of GDP (%) for selected Asian countries (2011)



Source: IILS based on the World Development Indicators.



**Box 1.3 The global economic crisis: Impact and responses**

The annual growth rate of exports reached 15 per cent in 2008–09, but during the height of the crisis fell to 0 per cent (Table 1.1). However, the decline in Bangladesh's exports was relatively mild compared with other countries in the region such as India, Nepal and Pakistan – all of which registered negative growth rates between 2008 and 2010. The specialization of the national economy in the export of low-cost products, whose demand during the crisis was only marginally impacted, explains in part these trends.

**Table 1.1 Annual growth rate of exports by main product at current prices**

	2008-09	2009-10	2010-11
Ready-made garments	18%	0%	43%
Jute manufactures	-6%	53%	31%
Fish, shrimps and prawns	-20%	3%	29%
Leather and leather manufacture	n.a.	24%	39%
Raw jute	20%	43%	49%
Handicraft	-92%	87%	-71%
Tea	-92%	-55%	-49%
<b>Total</b>	<b>15%</b>	<b>3%</b>	<b>42%</b>

Source: ILS based on Bangladesh Bank.

Furthermore, the stimulus packages approved by the government also helped to support the export sector. During the initial stages of the crisis, the strategy adopted by the government was to monitor the financial situation and to control the foreign exchange reserves of Bangladesh (Rahman et al., 2009). However, in April 2009, the first stimulus package worth 34.2 billion Bangladesh taka (BDT) (0.55 per cent of GDP) was passed, of which 43 per cent was devoted to the agricultural sector, 18 per cent to the power and energy sector, 15 per cent to export promotion, and 13 per cent to social security spending.

Within the export promotion policies, the first stimulus package provided cash incentives for the exports of leather and leather products, frozen food and jute products. In addition, the second stimulus package worth 50 billion BDT announced in June 2009 (equal to 0.8 per cent of GDP), in addition to renewing early measures, introduced new programmes, notably cash incentives that were extended to the export of ready-made garments. In particular, the government provided small and medium-sized garment exporters with an additional 5–10 per cent increase in cash incentives on the total value of exports.

GDP in Malaysia and Viet Nam were over 80 per cent, while for Thailand they were 76 per cent, and for countries such as China and the Philippines, over 30 per cent.

*...with exports dominated by the garment sector and a few key trading partners, notably the EU and the USA ...*

Since the 1990s, there has been a significant change in the portfolio of products exported from Bangladesh (Table 1.2). For example, between 1989–90 and 2010–11, exports of hides, skins and leather, as well as of fish and prawns, declined from 11 to 3 per cent and exports of jute declined from 20 to 4 per cent. These declines have been compensated by a rapid increase in the export of ready-made garments, whose share of total exports has more than doubled, reaching 80 per cent in 2008–09 (Table 1.2). And despite a modest decline following the crisis, the sector continues to account for more than three-quarters of all exports.

Meanwhile, the destination of Bangladeshi exports is mainly the United States and key Eurozone countries: in 2010–11, the Eurozone alone accounted for more than half of the total Bangladeshi exports, while the United States accounted for another 28.9 per cent (Figure 1.5). Other key destination countries include the United Kingdom (11.4 per cent) and Canada (5.5 per cent). And while exports were relatively resilient during

**Table 1.2 Exports by product**

	1989-90	1996-97	2008-09	2010-11
Tea	2%	1%	0%	0%
Hides, skins and leather	11%	5%	2%	3%
Fish and prawns	11%	8%	4%	3%
Jute manufacturers	20%	11%	3%	4%
Ready-made garments	39%	61%	80%	77%
Others	17%	14%	11%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

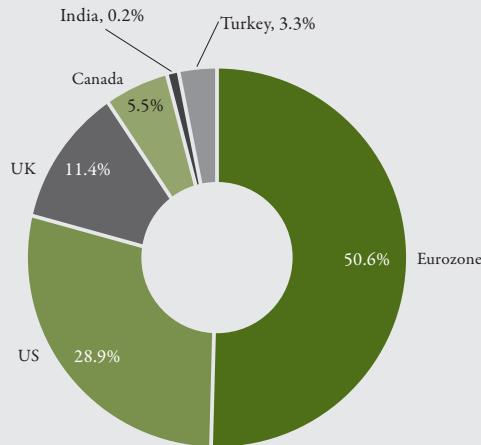
Source: ILS based on Bangladesh Bureau of Statistics.

the global financial and economic crisis, export prospects are highly reliant on one industry and a few key trading partners, making the Bangladeshi economy vulnerable to a number of external factors.

*Despite increased industrial activity, Bangladesh suffers from infrastructure bottlenecks ...*

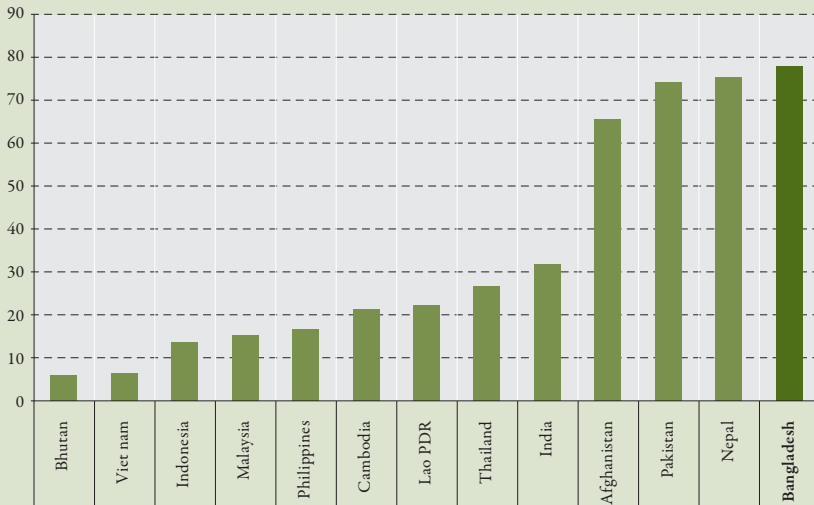
While countries in East Asia generally rank higher than those in South Asia in terms of infrastructural bottlenecks like electricity, the share of enterprises in Bangladesh reporting access to electricity as the major constraint facing their businesses is 78 per cent, the highest in the region (Figure 1.6). This unreliability of electrical power in Bangladesh manifests itself in the loss of production. Indeed, Bangladeshi enterprises report losses of over 10 per cent of annual sales due to electrical outages. This is considerably higher when compared with countries such as Thailand, Indonesia, and Viet Nam, where losses due to electrical outages are 3 per cent or less of total annual sales.

Figure 1.5 Exports of ready-made garments by destination, 2010–11 (%)



Note: Eurozone countries include Belgium, France, Germany, Italy, Netherlands and Spain.  
 Source: IILS estimates based on Bangladesh Bureau of Statistics.

**Figure 1.6 Major infrastructure bottleneck – electricity**  
(percentage of firms identifying electricity as a major constraint)



Note: The data refer to the latest year available.  
Source: IILS based on the Enterprise Survey of the World Bank.

More challenging still is the issue of infrastructure-related occupational accidents. In light of the series of events in 2012 and 2013, including most notably the collapse of a garment factory in Savar in April, 2013, it has become abundantly clear that the infrastructure in the country is not prepared to handle the production level. Indeed, while the country has tried to reduce the number of days it takes to start and operate a business, it has not paid sufficient attention to the building of factory plants and other infrastructure related to the industrial sector. For example, it takes less than four weeks to obtain a construction permit, which is remarkably low compared with other countries in the region.<sup>2</sup> In fact, it takes longer to obtain an electrical connection (close to two months) than to get an approval for a factory plant.

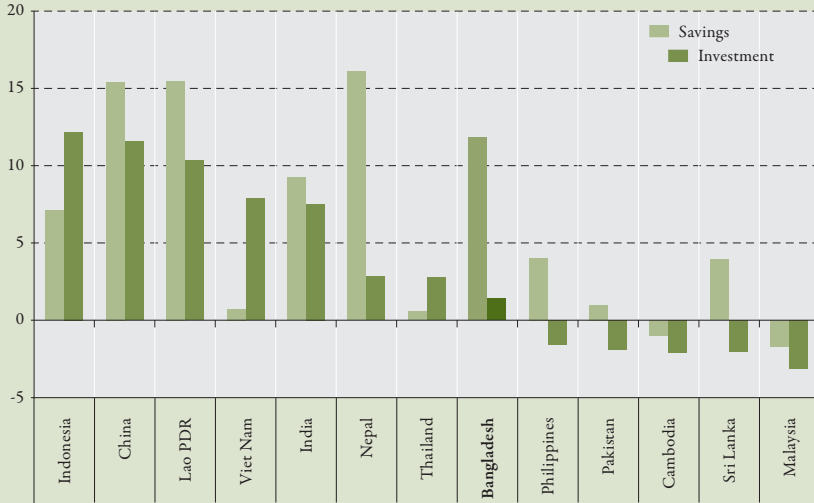
*...driven in part by stagnant investment.*

Bangladesh's gross savings increased from 17 per cent in 1990 to 38 per cent in 2010. The level of savings in 2010 was among the highest in South

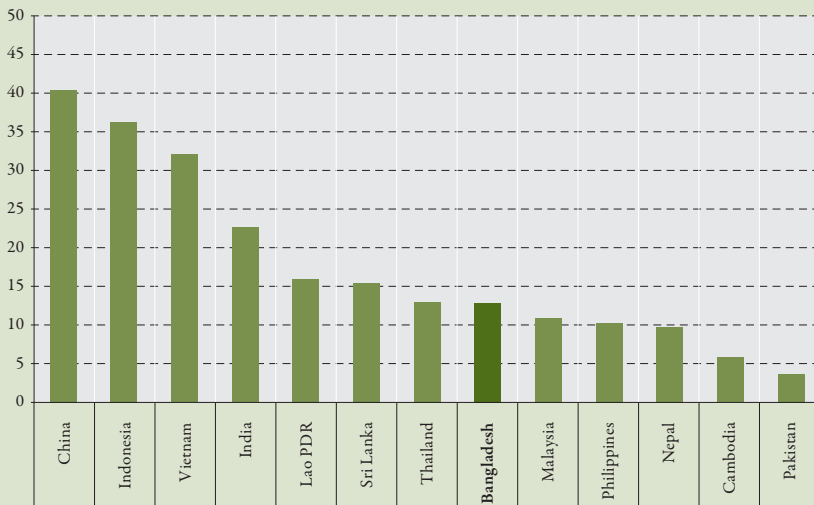
<sup>2</sup> World Bank Enterprise Survey, 2012; the data refers to the most recent year available.

Figure 1.7 Savings and investment

Panel A. Percentage points change in savings and investment in selected Asian countries (2000–10)



Panel B. Investment as percentage of GDP (2011)



Source: ILS based on World Development Indicators.

---

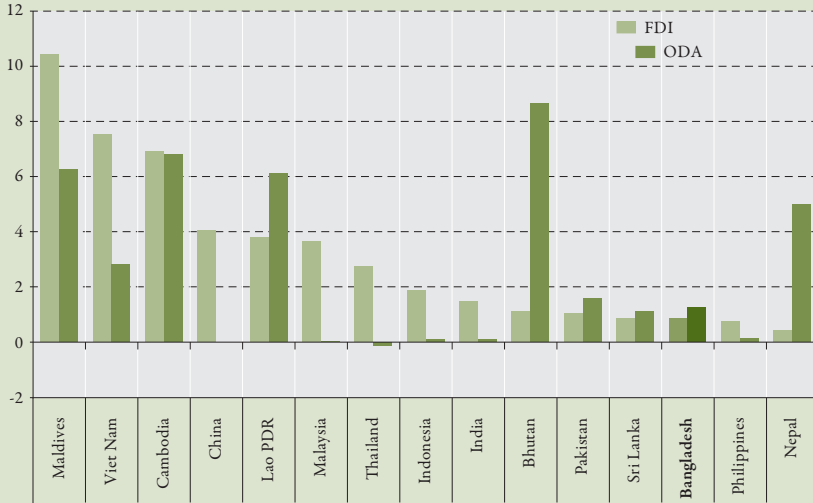
East Asia, second only to China where the rate of savings reached 53 per cent (Figure 1.7, panel A). The growth in savings is mainly a result of the increasing importance of remittances in Bangladesh. In fact, Bangladesh is one of the largest recipients of remittances per year – in 2011 it was more than 10.8 per cent of its GDP, over US\$12 billion – remittances flowing into Bangladesh increased more than five-fold between 1999–2000 and 2009–10 – from \$1.9 billion to \$11 billion (Chapter 5 will look at the role of migrant workers abroad in fuelling Bangladeshi economy at home).

The increase in savings did not translate into higher investment. In fact, over the past decade investment as a share of GDP increased by a meagre 1.4 percentage points. As a result, investment as a share of GDP in Bangladesh was 25 per cent in 2011, one of the lowest in the region (Figure 1.7, panel B). On the contrary, in the cases of China and India, increase in savings was reflected by a commensurate increase in investment. Consequently, in terms of levels, countries in the region reported considerably higher investments rates than in Bangladesh: China (45.5), India (29.5), Indonesia (32), Thailand (26.3) and Viet Nam (31.9).

Of particular interest is the fact that – despite the presence of major international partners in the RMG and other manufacturing sectors – foreign direct investment (FDI) is woefully low at 0.9 per cent of GDP in 2011 (Figure 1.8). Even the increase in FDI inflows that occurred at the beginning of the 2000s has been relatively small and has not significantly reduced the gap with the other countries in the region. Other countries such as Cambodia (6.9 per cent), China (4.1 per cent) and Viet Nam (7.5 per cent) receive significantly larger FDI in terms of their respective GDP. One of the factors underlying low FDI levels is – as discussed above – the bureaucratic burden faced by foreign enterprises. While it is true that Bangladesh has made considerable efforts in recent years, it remains difficult to enforce contracts and widespread corruption persists.<sup>3</sup>

<sup>3</sup> World Bank and International Finance Corporation (2011).

**Figure 1.8 FDI inflow and official development assistance (ODA) in selected Asian countries (2010, % GDP)**



Source: ILS based on the World Development Indicators.

---

## B LABOUR MARKET DEVELOPMENTS

### *The composition of jobs has shifted away from traditional sectors ...*

In line with the macroeconomic developments, employment creation has shifted away from agriculture: employment in the sector has fallen from 74 per cent in 1989 to roughly 47 per cent in 2010 (Figure 1.9, panel A). As of 2010, among non-agricultural sectors, trade, hotels and restaurants accounts for the largest share at 30 per cent, followed by the manufacturing industry (24 per cent) and the transport, storage and communication sector (14 per cent) (Figure 1.9, panel B). Since 2000, the share of employment in the trade sector has remained relatively stable – falling marginally from 31 to 30 per cent between 2002–03 and 2010 – while in the case of the manufacturing sector it increased from 20 to 24 per cent in the same period. Most of the new jobs in the manufacturing sector have been in the RMG sector, construction, transport and other trade-related activities.

In terms of occupations, indeed, the analysis reveals that the share of agriculture, forestry and fisheries has constantly declined since 1995–96. This decline has been mainly compensated with an increase in production and transport – from 16 per cent in 1995–96 to 24 per cent in 2010 (Table 1.3, panel A). Parallel to this change, there has been a slow but steady shift of the workforce from rural to urban areas. The share of rural employment out of total employment has decreased from 89 to 76 per cent between 1989 and 2002–03. Since then, this percentage has remained stable, signalling the achievement of an equilibrium point (Table 1.3, panel B).

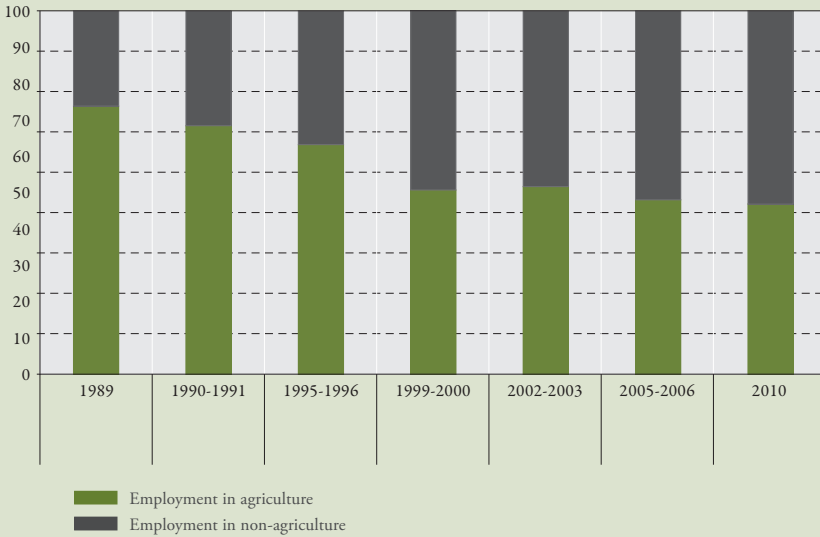
### *...but there has been little aggregate improvement to the labour market over the past decade due in part to the strong growth in the working-age population ...*

Despite the strong economic performance that has characterized Bangladesh in recent years, there has been little improvement in the overall labour market situation (Figure 1.10). Other countries in South Asia such as Bhutan, Maldives, Pakistan and Sri Lanka have performed much better. In the last 10 years, Bangladesh's employment elasticity stood at 0.4, which is lower

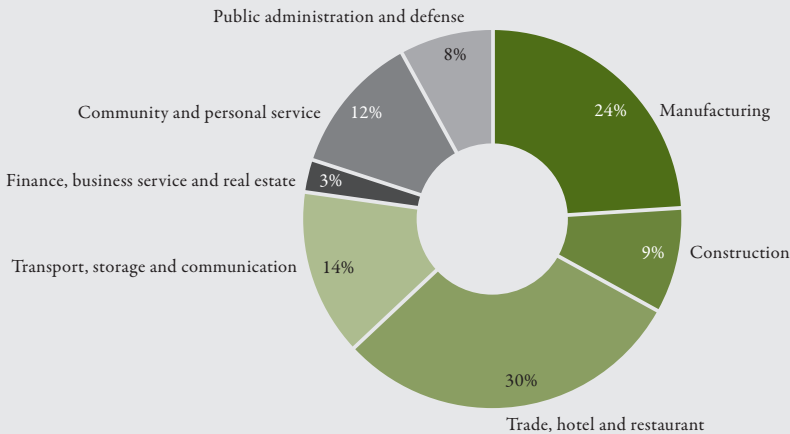


Figure 1.9 Employment by sector of activity

Panel A. Share of employment by broad economic sector (percentages)



Panel B. Detailed composition of non-agricultural employment, 2010



Source: IILS estimates based on Labour Force Survey, different years.

**Table 1.3 Employment shift by occupation and region**

**Panel A. Employment by occupation**

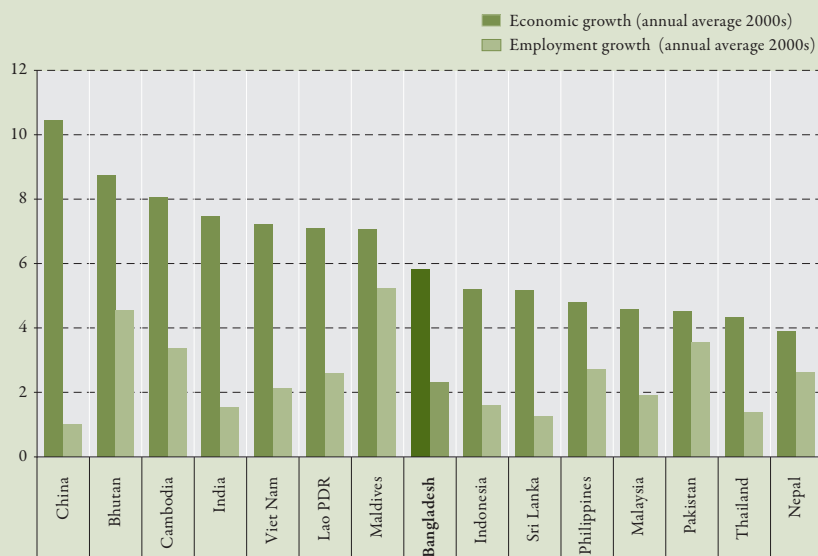
	1995-96	1999-2000	2002-03	2005-06	2010
Professional, technical	3%	4%	4%	5%	5%
Administrative, managerial	0%	1%	0%	0%	1%
Clerical workers	2%	3%	3%	2%	2%
Sales workers	11%	15%	15%	14%	15%
Service workers	3%	6%	5%	6%	6%
Agriculture, forestry and fisheries	64%	51%	51%	49%	47%
Production, transport	16%	21%	22%	24%	24%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Panel B. Employment in rural and urban areas**

	1989	1995-96	2002-03	2005-06	2010
Urban employment	11%	18%	24%	24%	23%
Rural employment	89%	82%	76%	76%	77%

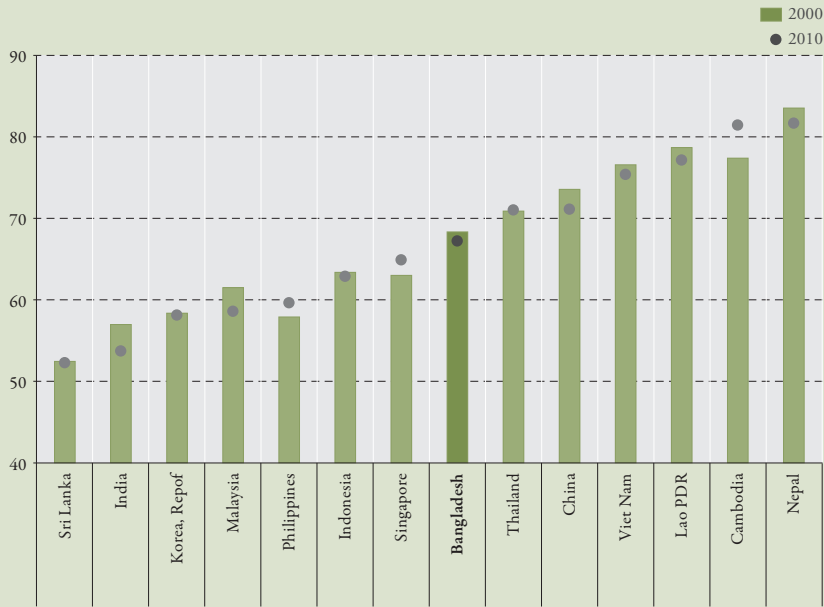
Source: IILS estimates based on Labour Force Survey, different years.

**Figure 1.10 Economic and employment growth, 2000s** (percentages)



Source: IILS calculations.

**Figure 1.11 Employment rates among select countries in the region, 2000 and 2010**  
(percentages)



Source: IILS based on ILO Laborsta.

than most countries in South East Asia. Although for large countries such as China and India, employment elasticity is generally lower, which in the case of India (and Bangladesh) has much to do with the general low formal job creation rates.

One of the main difficulties in obtaining better employment performance is related to the inability of the labour market to keep pace with the demographic developments of the country. Indeed, the working-age population has grown at the impressive average of more than 2 million people per year over the past two decades and is expected to grow at a pace of 2.2 million per year over the next decade. As a result, the employment rate between 2000 and 2010 in Bangladesh fell 1.7 percentage points (Figure 1.11). At 67 per cent it is roughly on par with the median among countries in the region.

Furthermore, between 2010 and 2020 the working-age population is expected to increase by 22 per cent (around 22 million people) with significant gains in the share of the population in the age group 25–39. While a demographic dividend can create numerous opportunities for development – due to higher labour supply and greater internal demand – it will depend critically on the ability of the economy to productively employ the new workers – something it has not yet managed to achieve.

*...leading to high informality and underemployment ...*

Poor formal job creation rates have meant that informal employment continues to constitute a large share of total employment and in fact, has increased in the last 10 years. In particular, the share of informal employment increased from 75 per cent in 1999–2000 to 78 per cent in 2005–06 and 87 per cent in 2010 (Figure 1.12).<sup>4</sup> Compared with other countries in

**Figure 1.12 Share of informal employment out of total employment, 1999–2000 to 2010**



Source: ILS based on Key Findings of Labour Force Survey 2010 and Labour Force Survey 2005 & 2006. Bangladesh Bureau of Statistics.

<sup>4</sup> According to the definition agreed on 17th International Conference of Labour Statisticians and used by the ILO, “employees are considered to have informal jobs if their employment relationship is, in law or practice, not subject to labour legislation, income taxation, social protection or entitlement to certain employment benefits”.

the region, Bangladesh has the highest share of informal employment. The sectors with the share of informal employment greater than 90 per cent include: mining and quarrying; agriculture, forestry and fishing; transportation and storage; wholesale and retail trade; construction. A more detailed examination of the factors associated with high levels of informality will be undertaken in Chapter 3.

In addition, underemployment – defined as employment of less than 35 hours per week – increased from 16.6 per cent in 1999–2000 to 20.3 per cent in 2010. In other words, more than one-fifth of the labour force works for a limited number of hours. Moreover, there is a huge – although decreasing – gap between male and female underemployment rates – at 14.4 and 34.5 per cent respectively in 2010. Also, underemployment is generally higher in rural than urban areas due to its prevalence in the agriculture sector.

*...with young people bearing the brunt of the lacklustre job creation.*

Youth aged 15–24 in Bangladesh have been particularly affected by the lack of improvements in the labour market and have not fully benefited from the economic gains of recent years. In fact, youth labour market participation and employment rates are low and stagnating. Around 13 million youths participate in the labour market, which corresponds to a labour market participation rate of 47.6 per cent – considerably lower than the corresponding rate for adults aged 25–64 (64 per cent). Similarly, the gap between the youth and adult employment rate is 22.9 percentage points (Figure 1.13). Furthermore, despite rising educational attainments, youth unemployment remains high. In particular, the unemployment rate for young workers is at 8.7 per cent, more than three times higher than among adults.

Somewhat more troubling is that young people with higher educational attainment have greater difficulties in finding a job than those with little or no education. In fact, unemployment rate tends to increase with the level of education, while the gap between youth and adult unemployment also increases with increased education. For example, the unemployment

Figure 1.13 Employment rates among adult and youth

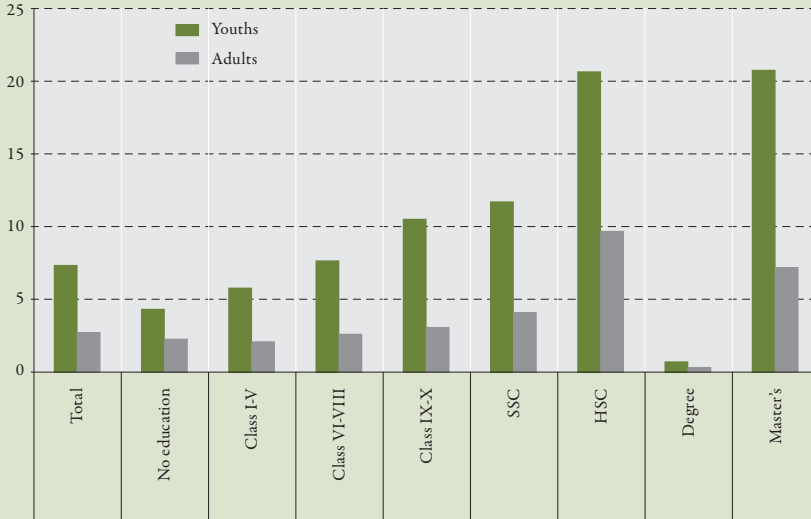


Source: IILS based on ILO Laborsta.

rate is 12 per cent among youths that have obtained a Secondary School Certificate (SSC) and 4 per cent among adults with the same qualification. Similarly, the unemployment rate is at 21 per cent among youths with a postgraduate degree compared with 7 per cent for adults (Figure 1.14). Even within the youth population, significant differences occur between men and women and between urban and rural areas – see Box 1.4 for details. One of the principal causes behind these trends seems to be related to the skills mismatch between an increasingly qualified labour force and the availability of mainly low-skilled employment opportunities – mostly in the agricultural and manufacturing industries.

Moreover, despite the higher qualifications of youths, young workers are also employed in low-skill jobs with a higher frequency than adults. Indeed, looking at the employment occupations of the two groups, it appears that youth tend to be employed in agriculture than more than adults – 52 per cent compared with 39 per cent for adults. Similarly, the breakdown of the

**Figure 1.14 Youth and adult unemployment rate by level of education, 2010**  
(percentages)



Note: Educational attainment increases from left to right. SSC refers to Secondary School Examinations (equivalent to 10th-grade exams); HSC to Higher Secondary Examinations (equivalent to 12th-grade exams).

Source: ILS estimates based on Bangladesh Labour Force Survey 2010.

**Box 1.4 Differences among young persons: Gender and urban/rural disparities**

Even among youth, there are significant differences that merit highlighting. First, young women have lower educational outcomes than young men (see Chapter 2). In particular, 61 per cent of men between the ages of 15 and 29 years who are not in the labour force are enrolled in education, compared with only 21 per cent of women of the same age group. In addition, while the overall employment rate for youths between 15 and 29 is at 49 per cent, the gender gap is significant – the employment rate among young men is 76 per cent compared with 35 per cent for young women. Finally, while only 1 per cent of young men not participating in the labour market are considered as household workers, this rises to 76 per cent for young women.

Finally, although less marked, there is a difference between rural and urban areas. In urban areas the rate of school attendance among youth aged 15–29 is higher – 42 per cent, compared with 31 per cent in rural areas. However, due to the importance of agricultural employment in rural areas, labour market participation and employment rates are higher in rural than in urban areas.

---

youth and adult workforce by employment status reveals that 40 per cent of young workers are employed as unpaid family workers, while the same is true for only 12 per cent of the adults. It comes as a little surprise that the pessimistic labour market outlook has forced many Bangladeshi youths to look for labour market opportunities abroad – an issue discussed in more detail in Chapter 5. Indeed, 37 per cent of Bangladeshis between 15 and 24 years old expressed their willingness to permanently leave the country, which is the largest share of young people wanting to leave their country compared with other countries in the region (Gallup World Poll, 2012).



## C MACROECONOMIC CONDITIONS FOR BETTER EMPLOYMENT OUTCOMES

*Growth between 6 and 7 per cent per year is needed to absorb the growing labour force ...*

Between 2000 and 2011, the average growth rate in Bangladesh was 5.8 per cent, but going forward, if growth continues at this pace it will not be enough to create the jobs required to accommodate the increase in working-age population (Figure 1.15). In fact, a growth rate of this magnitude would leave an addition 1.6 million individuals without work. Worse still is if the country's growth rate falls to levels attained in the 1990s, i.e. below 5 per cent. Under this scenario more than 5 million individuals will be out of employment. Indeed, only if the country can consistently maintain the most recent growth of 6.7 per cent (reached in 2011), will there be a jobs surplus, i.e. employment growth would in fact exceed the growth in the working-age population – leading to an improvement of the employment rate by 2.6 percentage points.<sup>5</sup>

*...and greater export diversification (goods and destination) will have widespread benefits ...*

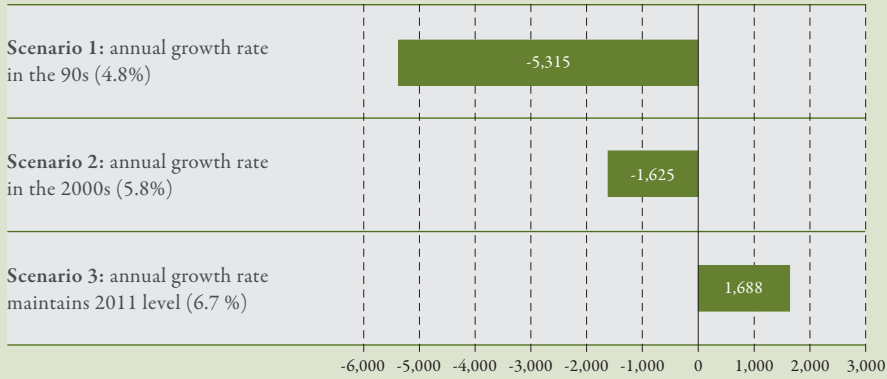
During the process of trade liberalization, Bangladesh has concentrated on the export of clothing and significantly decreased its exports from the primary sector. This has had important implications on the employment growth with job gains concentrated principally in export-related manufacturing and exports destined for few markets. The increased reliance on the RMG sector and the limited diversifications with respect to export markets raises important questions of whether moving forward, a more diversified export model would not better serve overall employment objectives. A useful tool for examining different export scenarios and their potential impact on employment is the Social Accounting Matrix (Box 1.5).<sup>6</sup>

With this in mind, the purpose of the first simulation is to estimate the potential impact of the recession in the EU on output and employment.

<sup>5</sup> Employment to growth elasticity is calculated based on the data for 1991–2010.

<sup>6</sup> This section and related analysis was prepared by Daniel Samaan of the International Institute for Labour Studies.

**Figure 1.15 Employment deficit with respect to the projected increase in working-age population by 2020 ('000s)**



Note: Refers to persons aged 15 and over.  
Source: ILS estimates.

**Box 1.5 Simulations using a Social Accounting Matrix**

A Social Accounting Matrix (SAM) is a double-entry traditional economic accounting system that takes the form of a partitioned matrix (or a block matrix). It records all economic transactions among agents, particularly those in the areas of production factors, institutions, and production activities. As a comprehensive data collection system, a SAM has many benefits. First, it summarizes all transaction activities in an economy within a period of time (usually a year) such that it provides a general overview of the socioeconomic structure and the income distribution of an economy. Second, it works as an important analytical tool because it can simulate employment impacts (direct and indirect) on changes in the production model, e.g. changes in export diversification (see Appendix B).

On the basis of data from the input–output table of 2007 and the Bangladeshi labour force survey 2011, the ILS has linked overall employment impacts in Bangladesh with the output structure of its economy. Under the assumption of single commodity industries, the export products of Bangladesh can be directly linked to activities (industries) and employment. According to the input–output table, total exports as a share of GDP are about 19 per cent. In terms of employment, input–output tables confirm that large portions of the Bangladeshi labour force are directly employed in export-oriented industries.

Indeed, the European Union and the United States continue to face headwinds in terms of economic stability, with the former having entered into another recession (double-dip) in 2012. More specifically, if a recession in Europe persists and demand for garments declines, a fall in exports would have important implications for growth and employment between 2012 and 2014.<sup>7</sup> In particular, gross output would fall by approximately 520,000 million BDT or about 3.3 per cent lower by the end of 2014 than in the baseline scenario (BAU). This would translate into a lower GDP of about 1.2 percentage points with employment is adversely affected with about 2.2 million fewer jobs over the two-year period, with the majority of employment losses in the informal sector (1.9 million jobs).

The analysis also reveals that a shift in the composition of exports – away from RMG towards a more balanced base – would have less severe employment effects due to an external shock (e.g. recession in the EU).<sup>8</sup> Diversifying exports would also yield positive employment growth, with the job gains more evenly distributed across sectors, including in the RMG industry.

*...but this will need to be complemented  
by efforts to stimulate investment, notably in infrastructure.*

Even if more efforts are made at diversification, the RMG sector will continue to be a vital component of Bangladesh's growth plan, but in light of the collapse of a garment factory in Savar in April 2013, efforts towards creating a better infrastructure so that its industrial sector can thrive and prosper are needed.<sup>9</sup> Currently, overall investment remains low and a disproportionate share is allocated towards residential and commercial real-estate investment. Yet, if investment as a share of GDP were to steadily increase to levels comparable to other countries of the region (e.g. Viet Nam), significant gains in employment could be achieved.

<sup>7</sup> Under the assumption, exports to the EU would fall by 35 per cent between 2012 and 2014. The scenario also assumes that there is no change in production technique, no substantial productivity gains over time, and a constant returns to scale (CRS) technology.

<sup>8</sup> In this scenario, total exports are assumed to grow at a pace of 10 per cent per annum.

<sup>9</sup> To re-establish the viability and credibility of the RMG sector, measures on a number of fronts will be needed. Key issues related to working conditions and occupational health and safety are discussed in later chapters.

---

For instance, simulations based on the SAM for Bangladesh (see box 1.5) suggest that an annual 5 per cent (roughly over 10 per cent in two years) increase of domestic investment would result in an additional 600,000 jobs over two years. This result occurs under the assumption that additional investments are allocated in the same proportions as in the past, i.e. the largest investment being residential and commercial housing. Furthermore, increasing investment will likely create large spill-over effects as more than half of the jobs would be created in sectors only indirectly linked to investment purchases. Moreover, the analysis suggests that maintain the assumption of an annual 5 per cent increase in investment but reallocating investment towards infrastructure projects (e.g. power plants, bridges, rural roads and railway construction) would have similar employment effects (gain of 600,000 over two years) but would create much higher chances of stimulating investment in the private sector with greater spill-over effects on overall business activity.

## D CONCLUDING REMARKS

As this chapter shows, Bangladesh has made significant progress towards modernizing its economy and has enjoyed a sustained period of economic growth. However, the gains have not led to sufficient formal job creation with underemployment and informal employment increasing in recent years. Moreover, given the expected rapid rise in the working-age population over the coming years, estimates from the chapter indicate that nearly 7 per cent per annum growth will be necessary to yield meaningful employment gains. To achieve this, improving investment, especially in infrastructure, is urgently needed. However, there is also an issue of job quality. Of particular concern is the RMG sector, which has been confronted by a series of work-related accidents. And, as important as recent efforts to stabilize the industry are, more consideration may be given to how to achieve greater diversification of exports, both in terms of content and destination – reducing overreliance on any one sector while generating more balanced job creation.

The remainder of this report addresses a number key of labour market and social considerations – especially regarding overall work quality, working conditions and occupational health and safety. In particular, women have not benefited to the same extent as their male counterparts and have fared much worse when considering the main dimensions of employment. Yet women have played an important role in the overall economic development of the country and account for 80 per cent of all RMG workers. As such, women have been disproportionately affected by recent industrial accidents in the sector. Chapter 2 will analyse these issues in more detail and propose a number of measures to reduce gender disparities in an effort to yield a double dividend and to make the RMG sector more viable for all employees, but for women in particular.

The rising incidence of informal employment – especially in the manufacturing sector – has also affected the country's development path as well

---

as the prospects for business creation, safe working conditions and equitable growth. With this in mind, Chapter 3 examines ways to facilitate the transition to formality and decent work while providing protection to the informal workers. Chapter 4 investigates regional disparities in poverty reduction and social spending trends and discusses the importance of employment generation as a key avenue for further improvements in poverty reduction and social development. Finally, with a significant share of Bangladeshis, especially youth, wanting to leave their country in search of work abroad and with remittances growing in importance, Chapter 5 assesses how to better leverage remittances for development, drawing on where relevant international best practices. It also assesses measures to improve the management of the overall migration process.

## APPENDIX A.

### DETAILED LABOUR MARKET INDICATORS

Table 1.4 Labour force composition

	Millions			Rates		
	2002-03	2005-06	2010	2002-03	2005-06	2010
<b>Population (15+)</b>	80.8	84.6	95.6			
Rural	61	63.5	72.3	75%	75%	76%
Male	31.1	32.3	36.2	51%	51%	50%
Female	29.9	31.2	36.2	49%	49%	50%
Urban	19.9	21.1	23.3	25%	25%	24%
Male	10.1	10.7	11.6	51%	51%	50%
Female	9.8	10.4	11.6	49%	49%	50%
<b>Economically active</b>	46.3	49.5	56.7	57%	59%	59%
Rural	35	37.7	43.4	57%	59%	60%
Male	27.4	28.4	30.2	88%	88%	83%
Female	7.6	9.3	13.2	25%	30%	36%
Urban	11.3	11.7	13.3	57%	55%	57%
Male	8.6	8.9	9.3	85%	83%	80%
Female	2.7	2.8	4	28%	27%	34%
<b>Employed</b>	44.3	47.4	54.1	55%	56%	57%
Rural	33.6	36.1	41.7	55%	57%	58%
Male	26.3	27.5	29.1	85%	85%	80%
Female	7.3	8.6	12.6	24%	28%	35%
Urban	10.7	11.3	12.4	54%	54%	54%
Male	8.2	8.6	8.8	81%	80%	76%
Female	2.5	2.7	3.6	26%	26%	31%
<b>Unemployed</b>	2	2.1	2.6	4%	4%	5%
Rural	1.4	1.6	1.7	4%	4%	4%
Male	1.1	0.9	1.1	4%	3%	3%
Female	0.3	0.7	0.6	4%	8%	5%
Urban	0.6	0.5	0.9	5%	4%	7%
Male	0.4	0.3	0.5	5%	3%	5%
Female	0.2	0.2	0.4	7%	7%	10%
<b>Inactive</b>	34.5	35.1	38.9	43%	41%	41%
Rural	25.9	25.8	28.9	42%	41%	40%
Male	3.7	3.9	6	12%	12%	17%
Female	22.2	21.9	23	74%	70%	64%
Urban	8.6	9.3	8.1	43%	44%	38%
Male	1.5	1.8	2.3	15%	17%	20%
Female	7.1	7.5	7.6	72%	72%	66%

Source: ILS based on Labour Force Survey, different years.

---

## APPENDIX B. CALCULATING EMPLOYMENT PROJECTIONS BASED ON GROWTH SCENARIOS

Formulas:

$$\varepsilon = \frac{\text{Employment growth \%}}{\text{Economic growth \%}}$$

Therefore, projected employment in time  $t + n$  can be obtained as:

$$Emp_{t+n} = \left[ \left( \frac{\varepsilon \times GDP \text{ growth}}{100} + 1 \right)^n Emp_t \right]$$

In particular, the projection of employment in 2020 from information on the level of employment in 2010 and the elasticity of employment can be obtained as follows:

$$Emp_{2020} = \left[ \left( \frac{\varepsilon \times GDP \text{ growth}}{100} + 1 \right)^{10} Emp_{2010} \right]$$



## REFERENCES

Bangladesh Bureau of Statistics. 2008. *Recent employment situation and labor market developments in Bangladesh*.

Bangladeshi Ministry of Finance. 2010. *Bangladesh Economic Review 2010*.

Government of the Peoples' Republic of Bangladesh. 2012. *The millennium development goals: Bangladesh Progress Report 2011* (Dhaka, General Economic Division).

Gunter, B.G. 2008. *Aid, debt and development in Bangladesh: Synergies and contradictions* (Bangladesh Development Research Centre).

International Labour Organization (ILO). 2007. *Freedom of association and collective bargaining in export processing zones: Role of the ILO supervisory mechanisms*, International Labour Standards Department Working Paper No. 1 (Geneva).

International Monetary Fund (IMF). 2011. *Bangladesh: Staff report for the 2011 Article IV Consultation – informational annex* (Washington, DC).

Islam, R.; Mujeri, K.M.; Ali, Z. 2011. *Fiscal and political space for crisis response with a focus on employment and labour market: Study of Bangladesh*, ILO Employment Working Paper No. 92 (Geneva).

Maligalig, D.S.; Cuezas, S.; Rosario, A. 2009. *Informal employment in Bangladesh*, ADB Economics Working Paper Series No. 155 (Asian Development Bank).

Pyatt, G.; Round, J.I. 1977. "Social accounting matrices for development planning", in *Review of Income and Wealth*, Series 23, No. 4, 339–364.

Rahman, M.; Moazzem, K.G.; Hossain, S.S. 2009. *Impact of the global economic crisis on the employment and labour market of Bangladesh: A preliminary assessment* (Dhaka, Centre for Policy Dialogue, and Bangkok, ILO).

Sadoulet, E.; de Janvry, A. 1995. *Quantitative development policy analysis* (Baltimore, MD, The Johns Hopkins University Press).

Schwab, K. 2012. *The Global Competitiveness Report 2012–2013*, World Economic Forum (Geneva).

World Bank. 2008. *Poverty assessment for Bangladesh: Creating opportunities and bridging the east-west divide*, Bangladesh Development Series Paper No. 26 (Washington, DC).

World Bank and International Finance Corporation. 2011. *Doing business 2011: Making a difference for entrepreneurs* (Washington, DC).

---

## **CHAPTER 2**

# **STRENGTHENING THE LINK BETWEEN EMPLOYMENT AND DEVELOPMENT: THE ROLE OF WOMEN**

### **INTRODUCTION**

Bangladeshi women have been an integral part of Bangladesh's shift towards manufacturing and industrialization. They have helped to enhance agricultural productivity, been central to the emergence of the RMG sector and participated in poverty reduction efforts through microfinance and social programmes. However, several challenges remain in removing additional gender disparities in socio-economic outcomes, including health and education. Moreover, employment gains have accrued principally to men, with formal job opportunities for women often limited to the garment industry.

The purpose of this chapter is to underscore the contribution of Bangladeshi women to the development efforts of Bangladesh, while pointing out a number of asymmetries that if addressed could be leveraged to the benefit of all. The chapter begins (section A) by examining the broader development issues vis-à-vis women, focusing on health, education, political representation and other measures of gender equality. Section B analyses in detail the labour market status of women compared with men, focusing on their role in the RMG sector and measures needed to improve the working conditions for all employees in the sector. Section C concludes with a set of policy recommendations aimed to unlock Bangladesh's potential by including women as socio-economic partners in its development efforts.

## **A STATUS OF WOMEN: SIGNIFICANT PROGRESS IN THE LAST FEW DECADES, BUT CHALLENGES REMAIN**

Bangladesh has made considerable progress towards achieving gender parity across several dimensions of socio-economic well-being. Since the World Conference on Women in Mexico in 1975, Bangladesh has been at the forefront among the least-developed countries (LDCs) in addressing gender disparities. In fact, it was one of the first developing countries to establish a ministry dedicated solely to women's affairs in 1978 (ADB, 2005). Furthermore, in 1997, the Bangladeshi government put in place a National Action Plan for Women's Advancement (NPWA) with a view to addressing the persistent asymmetries in socio-economic status of women. The aim of the plan has been not only to make women an integral part of the country's development efforts, but also to establish women as equal partners in its

### **Box 2.1 National Action Plan for Women's Advancement**

The National Action Plan for Women's Advancement (NPWA) was drafted in 1997 with the goal of empowering women in order to achieve "equality, development, and peace". The National Action Plan (NAP) was later created by the Bangladesh Ministry of Women and Children's Affairs (MoWCA) to transform the NPWA's goals into measurable and time-bound projects. It included the following objectives: (i) to make women's development an integral part of the national development programme; (ii) to establish women as equal partners in development with equal roles in policy and decision-making in the family, community, and the nation at large; (iii) to remove legal, economic, political, or cultural barriers that prevent the exercise of equal rights by undertaking policy reforms and strong affirmative actions; and (iv) to raise/create public awareness about women's different needs, interests and priorities, and to increase commitment to bring about improvements in women's position and condition.

---

economic, political and social decisions. Furthermore, it aims to remove institutional barriers to gender parity and generally raise public awareness about equality between men and women (Box 2.1). As a result, Bangladesh has been able to bridge the gender gap across several dimensions but, as this section will show, important challenges remain.

*The health status of women has improved significantly but further progress is merited in a number of areas ...*

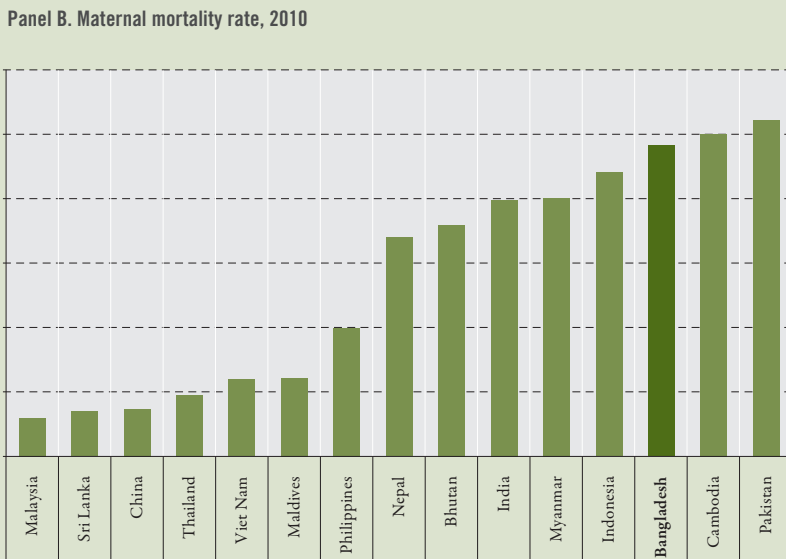
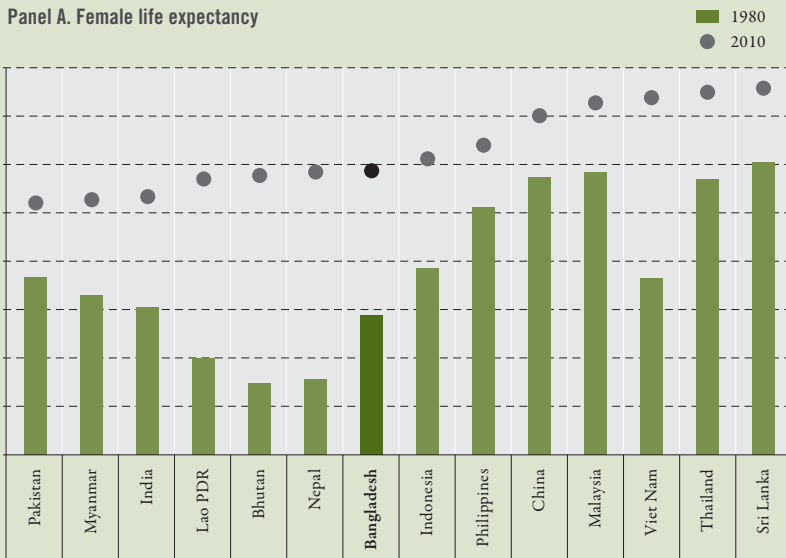
In the last three decades, Bangladeshi women have seen a significant improvement in their health status. Among the many dimensions of health, life expectancy among women has risen dramatically in the last three decades, increasing from 54.3 years in 1980 to 69.3 years in 2010 – one of the largest increases in the region (Figure 2.1, panel A). Yet, in 2010, life expectancy of women still trailed many of its close counterparts, including Sri Lanka, Thailand and Viet Nam.

Likewise, there has also been considerable progress with respect to maternal mortality rates and the prevalence of malnutrition among children under the age of 5. In fact, maternal mortality rates per 100,000 live births were halved between 1990 and 2000 (from 800 to 400) and have since fallen further to 240. However, despite this progress, in 2010 Bangladesh still had one of the highest maternal mortality rates in the world (Figure 2.1, panel B). Similarly, while the percentage of children that are malnourished has declined in the last three decades, with close to 50 per cent of children malnourished, it remains one of the highest in the region with slightly more girls than boys suffering from malnutrition.

*...and the gender gap in education has also been narrowing ...*

Improved educational attainment among women can have important positive spillover effects on the education of children, future productivity gains and long-term economic growth (see Box 2.2). And, education has been one of the areas in which most countries, including Bangladesh, have been successful in reducing gender disparities. In fact, Bangladesh has reduced

Figure 2.1 Progress in health outcomes, selected countries in the region



Note: In panel A, female life expectancy in 2011/12 is available only for a handful of countries. Panel B refers to maternal mortality rate (modelled estimate, per 100,000 live births)  
 Source: ILS estimates based on the World Development Indicators.

---

the gender gap – as measured by the female-to-male ratio – at all levels of education (Figure 2.2, panel a). Particularly noticeable has been the progress achieved at lower levels of education, i.e. youth literacy and secondary school enrolments. In these two areas, disparities have been reduced at a faster rate in Bangladesh than the global average. While during the 1980s, Bangladeshi girls were around 60 per cent less likely than boys to enrol in secondary education (with a ratio of 41 per cent), they were equally likely by the 2000s, and in 2010, young girls in Bangladesh were actually more likely than young boys to enrol in secondary education (ratio of 113 per cent). Similarly, illiteracy was around 40 per cent more pervasive among young women than among young men in the 1980s (with a ratio of 61 per cent), but in 2010, the ratio was 104 per cent. Moreover, compared with the averages in other regions and those in South and South East Asia, the ratios of female to male youth literacy and secondary school enrolments are higher in Bangladesh than elsewhere.

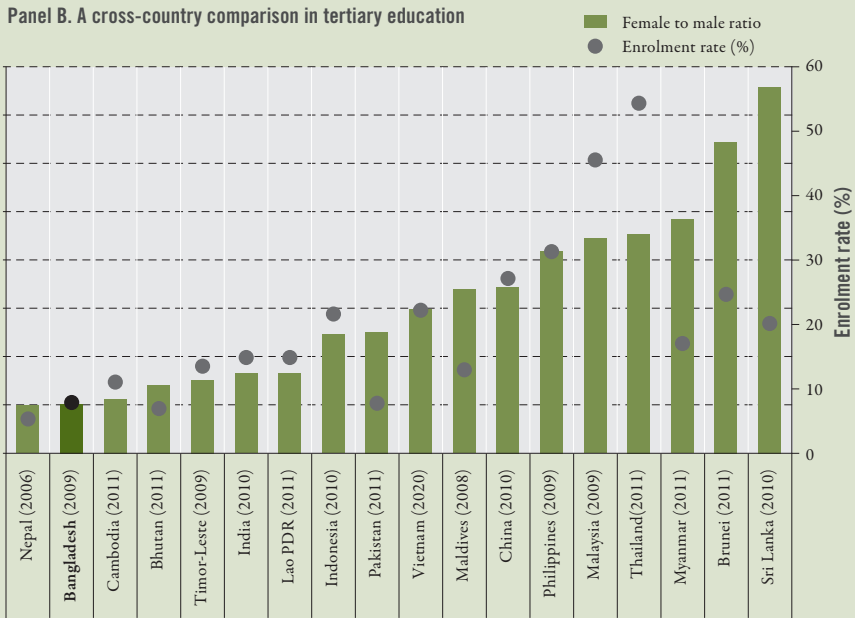
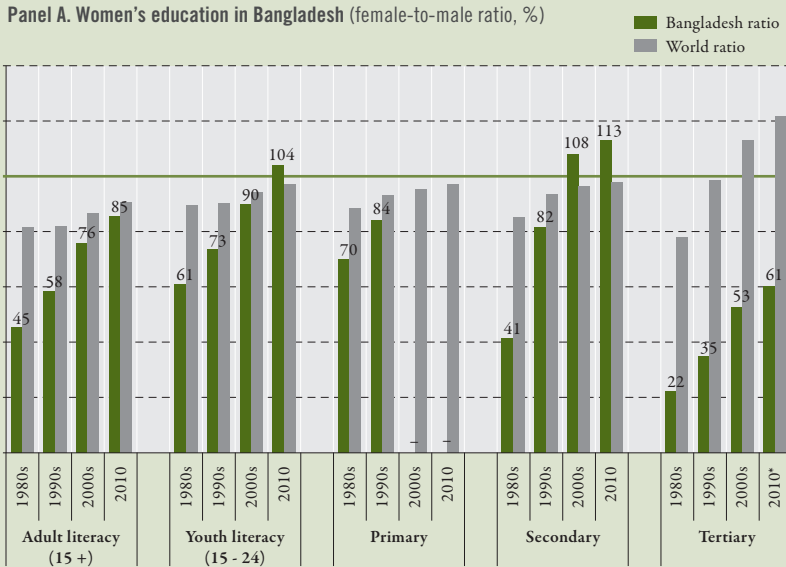
And although progress was also made towards tertiary education, female-to-male tertiary enrolment ratio is lower in Bangladesh than all other countries in the region except for Nepal (Figure 2.2, panel B). In particular, young women in Bangladesh are around 40 per cent less likely than men to enrol in tertiary education. Moreover, among South and South East Asian countries, not only does Bangladesh have the lowest female-to-male enrolment ratio in tertiary education, but also one of the lowest levels of female enrolment rate in the region. With only around 8 per cent of women enrolling in tertiary education, enrolment rate in Bangladesh is roughly half of India's rate, more than three times lower than China's rate, and seven times lower than the rate in Thailand, which has the highest female enrolment rate in the region.

*...which has helped tackle gender-related stigma.*

Traditional family structures, including in Bangladesh, make having a son more desirable to parents, due to the view that women are an economic liability.<sup>10</sup> For instance, one study showed that Bangladeshi women were 2.8 percentage points more likely to get a tetanus shot when pregnant with

<sup>10</sup> Kabeer and Mahmud, 2004; Kabeer, 2018.

Figure 2.2 Educational attainment for women



Note: Figures refer to the female-to-male ratios in percentages. Primary, secondary and tertiary refer to the gross enrolment ratio. Gross enrolment ratio is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the educational level. Youth literacy rate is the share of people ages 15-24 that are literate, and adult literacy rate is the percentage of people 15 and over who are literate.  
 Source: IILS estimates based on World Development Indicators (World Bank).

## Box 2.2 The role of educated women in development

Research indicates that educated women can accelerate development in a number of areas:

- *Impact on children's health and education:* A study in Nigeria showed that no other socio-economic factor was as significant in reducing infant mortality rates as a mother's education (Caldwell, 1979). Educated mothers also utilize better nutritional practices and health-care facilities, and increase the educational attainment of their offspring (Strauss and Thomas, 1995).
- *Influence on male-female ratio and violence against women:* Studies have shown that preference for a son is usually associated with lower educational attainment of parents (Case and Deaton, 2003). If women are better educated, they tend to influence the decisions over whether or not to keep the unborn child (hence reduce the practice of aborting unborn girls – see box 4.3). Meanwhile, women with formal schooling are more likely to resist and reduce violence (Sen, 1999; Fort and Tembon, 2008; Friedman et al., 2011).
- *Reduce child labour and enhance labour productivity:* Educated women can change the traditional family power balance and can lead to lower incidence of child labour (Basu and Ranjan, 2002). Meanwhile, studies have shown that an educated labour force can increase productivity at both the individual and the national level. Also, educated women in the labour force are more capable of adapting to new technology, which tends to increase wages (Wolfensohn, 1999).
- *Positive impact on politics:* A study of educational programmes of girls in Kenya showed that educational attainment of women was associated with increased political awareness and higher likelihood of participating in public life (Friedman et al., 2011). Meanwhile, women's presence in decision-making bodies tends to decrease corruption and increase the overall quality of governance (Beaman et al. 2009; OECD, 2008).

a male.<sup>11</sup> Indeed, the “missing women” phenomenon refers to sex-selective abortion prevalent in countries that tend to value males over females (Box 2.3).<sup>12</sup> However, over the last two decades Bangladesh has made progress towards reducing the male preference among households. In fact, the number of males per 100 females in Bangladesh has declined steadily since the 1980s and at 103 in 2011 is close to the expected normal ratio between males and females.

Studies show that growing independence for women is one of the major causes of a decline in the “missing women” of Bangladesh.<sup>13</sup> Education, access to microcredit, and increased labour force participation (especially in the garment sector) has rendered women more independent. Traditional

<sup>11</sup> Bharadwaj, 2012.

<sup>12</sup> Sen, 1999.

<sup>13</sup> Ibid.



**Box 2.3 The case of “missing women”**

Sex-selective abortions have disrupted the natural ratio of males to females: an estimated 160 million females have been aborted on the basis of gender in Asia alone. This has been coined the “missing women” phenomenon – female infanticide, coupled with indifference towards girls’ nutrition and health care at infancy, has led to an imbalance in the gender ratio in certain countries. Nobel-prize-winning economist Amartya Sen first noted the mortality impacts of unequal gender treatment in developing countries in his 1990 research. Pressured to have fewer children because of social and governmental provisions, many people in these countries are using modern technology to ensure that they give birth to males (Oster, 2005).

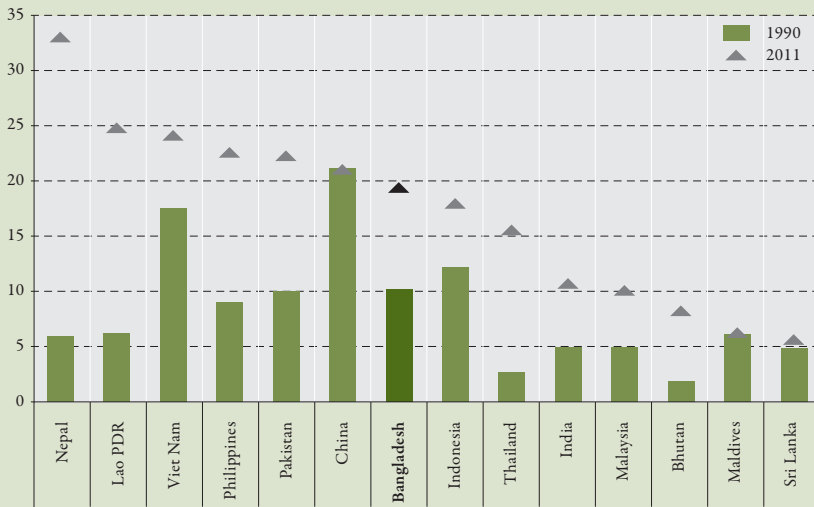
social norms are evolving to be more inclusive of daughters as providers and caretakers, giving them more value within the family structure in Bangladesh.

*Bangladesh also fares well in terms of political empowerment of women ...*

Bangladesh has the 8<sup>th</sup> lowest gender gap in political empowerment in the world. The ranking is also considerably high for the region, with other countries such as India, Sri Lanka and Nepal ranking 17<sup>th</sup>, 22<sup>nd</sup> and 37<sup>th</sup>, respectively. This is due in part to the fact that Bangladesh has had a female head of state for a longer period than any other country in the world – a remarkable feat in its own right. In addition, in the last two decades, the proportion of seats held by women in the national parliament doubled from 10 per cent in 1990 to 20 per cent in 2011 (Figure 2.3). Although in Bangladesh the share of seats held by women in the national parliament has increased, countries such as Nepal, Pakistan and Viet Nam, rank higher with more than 20 per cent of the members of parliament being female.

In a lot of these countries, mandatory political representation has been put in place in recent years. Indeed, in the case of Bangladesh, mandatory political representation for women has played an important role in leading to an increase in the share of women in the national parliament. But, the picture at other levels of government is less encouraging. In fact, in 2008

**Figure 2.3 Women in politics: Proportion of seats held by women in national parliament**  
(percentages)



Source: Global Gender Gap Report, 2012, World Economic Forum; World Bank.

(latest year available) only 0.5 per cent of the seats are held by women in local government and only 10 per cent of government service workers were women. So despite the increased presence at the national level, it has not translated into similar effects at the local level and government service. There also exist considerable disparities in land ownership, with women holding less than 10 per cent (BBS, 2010).

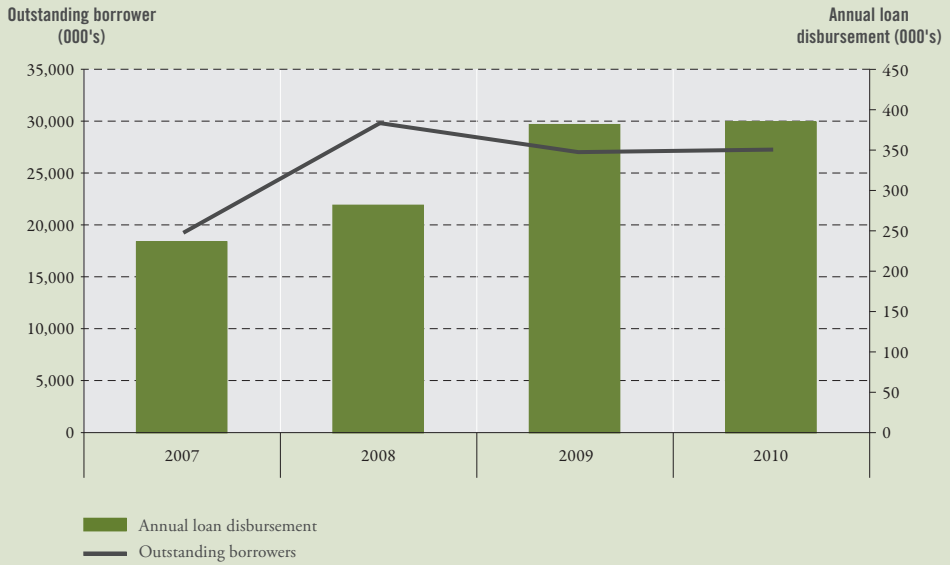
*...with microfinance playing an integral role,  
which has also helped to accelerate rural development ...*

As of 2010, there were approximately 800 microfinance institutions (MFIs) in Bangladesh that provided credit to 27 million active borrowers – approximately 18 per cent of the population (Figure 2.4, panel A).<sup>14</sup> The four main MFIs are Grameen Bank, the Bangladesh Rehabilitation Assistance Committee (BRAC), the Association for Social Advancement (ASA) and Proshika – with the top ten MFIs controlling 87 of total savings and 81 per cent of total loans. MFIs generally provide small loans (from 50 to 1,000

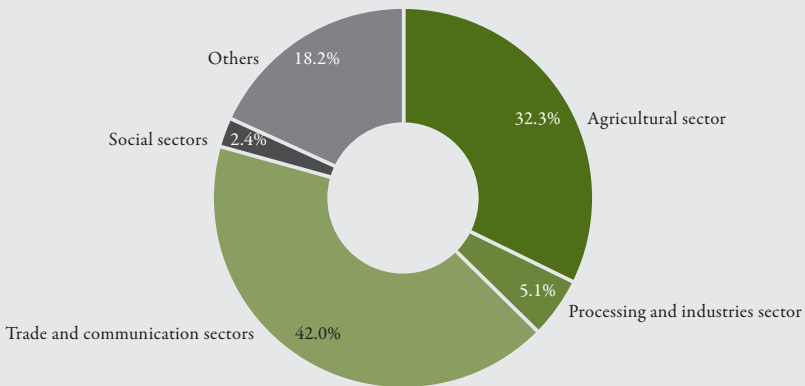
<sup>14</sup> Multiple borrowers will lead to some double counting.

Figure 2.4 Microfinance in Bangladesh

Panel A. Recent trends



Panel B. Use of microfinance by economic sector (percentages)



Source: Bangladesh Microfinance Statistics.

---

US\$) for self-employment activities (e.g. small operations in poultry, fruit and vegetable cultivation, handicrafts) and relatively larger loans (up to 7,000–8,000 US\$) for the development of micro-enterprises.

The MFIs in Bangladesh target those at the greatest risk of poverty, i.e. 92 per cent of the borrowers are women and 90 per cent live in rural areas. The greatest share of loans is used in the trade and communication sectors – 42 per cent of total loans – with small business accounting for the vast majority of loans in that sector (90 per cent). The agricultural sector is the second main recipient of microfinance loans – 32 per cent – followed by the processing and industries sector – 5 per cent – and social sectors – 2 per cent (Figure 2.4, panel b).

While there is some debate over the efficacy of microfinance in poverty reduction, studies have shown that in Bangladesh, female participation in microfinance activities has led to an increased sense of empowerment – measured by factors such as decision-making, social acceptance and awareness, political involvement – which in turn have led to general welfare improvements (Hashemi, Riley and Schuler, 1996; Kabeer, 2008).<sup>15</sup> In particular:

- *Economic empowerment:* A study comparing women participating in Grameen Bank and Bangladesh Rural Action Committee (BRAC) microfinance programmes with non-participants concluded that participants were 11 times more likely to have the power to make small purchases and 8.9 times more likely to make large purchases than non-participants. Another study using 125 randomly selected Grameen Bank members demonstrated a higher voluntary participation rate in the National Election (Basher, 2007).
- *Reduction in domestic violence and improvement in children's well-being:* Both BRAC and Grameen Bank members were one-third less likely to be beaten by their husbands than non-members in villages without credit programmes. Meanwhile, providing microfinance to women rather than men is more likely to result in increases in children's overall well-being as they are more likely to make better decisions about the allocation of money towards education and nutrition (Akhter et al., 1996; Khandker, 1999).

<sup>15</sup> Studies find that microfinance programmes have had an enormous impact on women in the form of economic empowerment (Hashemi, Riley and Schuler, 1996).

*...facilitated by the presence of large NGOs that have enhanced the delivery of public services.*

The story of Bangladesh's development efforts would not be complete without highlighting the role of large non-government organizations (NGOs) and MFIs, particularly, BRAC and Grameen Bank. BRAC invented the microcredit loans to the poor, while Grameen is credited for making the scheme successful by targeting it to women by using a collective borrowing scheme. Currently, Grameen has 8.4 million borrowers, while BRAC has 5 million borrowers, with the poor accounting for a quarter of all loans (Box 2.4). Organizations like these have been instrumental in helping Bangladeshi women earn a livelihood and improve their lives and have been working in close cooperation with the ILO office in Bangladesh together with civil society organizations in order to promote gender equality in the world of work. In particular, the ILO has focused recent efforts on preventing trafficking of women, promoting domestic workers' rights and addressing sexual harassment and violence against women in the workplace.

Much of Bangladesh's social and economic advancements are attributable to the active role NGOs have played in creating opportunities for positive and sustainable change in the country. For example, two of the largest MFIs – BRAC and Grameen Bank – have played a critical role in ushering in microcredit and lifting the lives of the poor in Bangladesh. For example, BRAC's Microloan Programme has provided over US\$5 billion of collateral-free credit to 6 million borrowers, offering financial resources to those not covered by conventional banking institutions. Both banks grant the vast majority of loans to women. Besides providing credit to poor women, these NGOs help in Bangladesh's development efforts along several dimensions:

- *Education:* BRAC's Education Programme has an enrolment of over 700,000 and was promoted by UNICEF as a high-impact, low-cost model for educating disadvantaged children at the primary school level. Education is available in a variety of outlets and focuses on empowering females by teaching practical life skills and livelihood training. Adolescent women in particular are educated on issues of reproductive health, early marriage and legal rights. Likewise, Grameen, through its umbrella organization Grameen Shikkha, provides educational grants, scholarships and loans, and support programs targeted at mass education, early childhood development, illiteracy and technology.
- *Environment, energy and technology:* BRAC runs programs that address disaster, climate change, health, sanitation and water. Some of their activities include incorporating hygiene education into school curriculums, selling soap and other health-care essentials at low prices, and employing the poor to build facilities. Meanwhile, Grameen Shakti is a not-for-profit company that supplies renewable energy to villages in Bangladesh without electricity. The company employs over 12,000 people and benefits around 8 million. Furthermore, Grameen runs a village phone programme that allows women to sell cellular phone services as a source of income. They are also the leading internet service provider in Bangladesh, bringing communication to rural areas that otherwise would have no access.
- *Gender issues:* BRAC's Gender Justice and Diversity Programme (GJD) was created in 2005 to promote gender equality. GJD mobilizes communities to build platforms on women's issues such as violence against women, sexual harassment, reproductive health rights and public policy. The Social Development, Human Rights and Legal Services Programme provides women in Bangladesh with legal rights training via clinics and encourages them to take action when their rights are violated.

## B LABOUR MARKET PERFORMANCE OF WOMEN

As Chapter 1 highlighted, overall labour market performance generally has not been encouraging, but in taking a closer look at the performance by gender, women have been particularly affected by the lack of employment creation and have benefited less than men during the recent growth phases. This has occurred in spite of the considerable progress made in terms of education and empowerment as discussed above.

### *The gender gap in labour force participation and employment remains elevated ...*

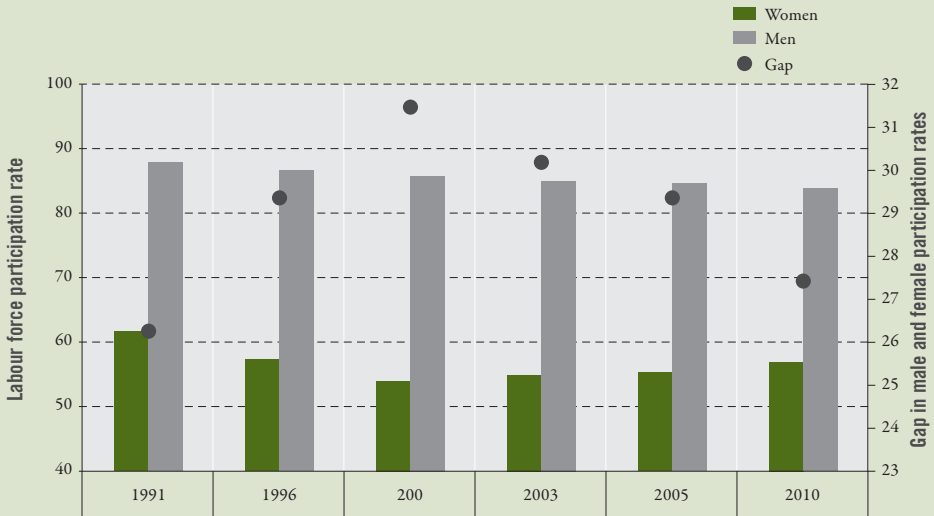
Despite some improvements in the recent years, the gap between male and female labour force participation rates was 28 percentage points in 2010 – for males it stood at 84 per cent while for females it was 57 per cent (Figure 2.5, panel A). The gap is little changed from 1991 when it stood at 26 percentage points. There has been an improvement in the last 12 years – the gap declined from 32 in 2000 to 28 percentage points in 2010 – but this was following a period in the 1990s when the gap increased to 32 percentage points and female participation dropped to 54 per cent – the lowest in recent decades. Similarly, the gender gap in employment rates stood at 32 percentage points in 2010 – for men the employment rate was 90 per cent, while for women it was 58 per cent (Figure 2.5, panel B).

### *...and women are disproportionately affected by unemployment, underemployment and vulnerable employment.*

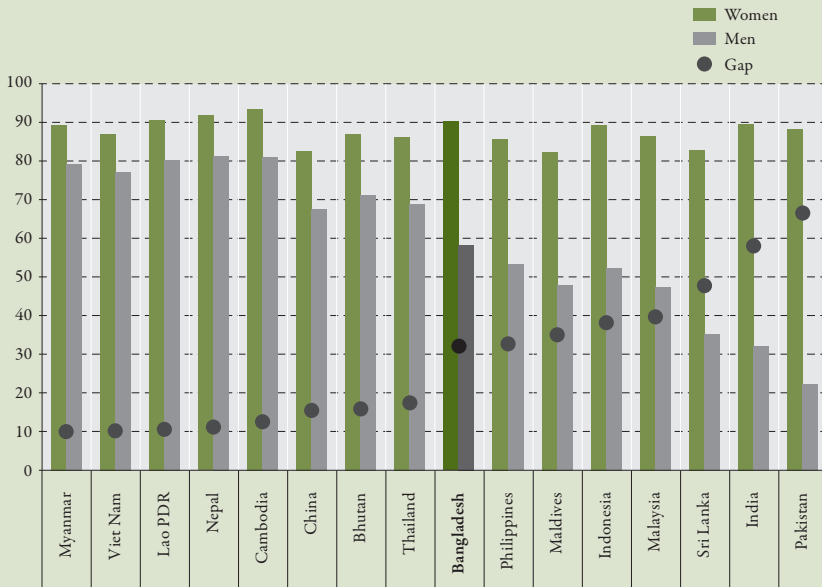
The unemployment rate for women has increased more rapidly than for men in the recent years. In fact, the female unemployment rate more than doubled in the past decade rising from 3.3 per cent in 1999–2000 to 7.4 per cent in 2009–10. Whereas, over the same period, the rate of unemployment among men increased from only one percentage point from 3.2 per cent to 4.2 per cent. In addition, the vast majority of women in Bangladesh,

Figure 2.5 Women in the labour market

Panel A. Labour force participation rates (percentages)



Panel B. Employment rates by gender, 2010 (percentages)



Note: Figures in Panel A are based on the ILO's estimations for the population over 15 years old. Figures in Panel B are based on the ILO's estimations for the population over 25 years old (defined as adult).

Source: ILO, *Key Indicators of the Labour Market (KILM)*, 7th edition.



i.e. 60 per cent, are considered “contributing family workers” (Figure 2.6). These workers are typically unpaid household members that are engaged in helping another family member in a family business or farming. Another quarter of employed women in Bangladesh work as “own-account workers” – these are self-employed workers with no employees that work on a permanent basis for themselves. As such, “contributing family workers” and “own-account workers” constitute 86 per cent of employed women in Bangladesh; together, these two categories are commonly defined as vulnerable employment. Among the South and South East Asian economies, only India and Lao PDR have a higher share of women in vulnerable employment.<sup>16</sup>

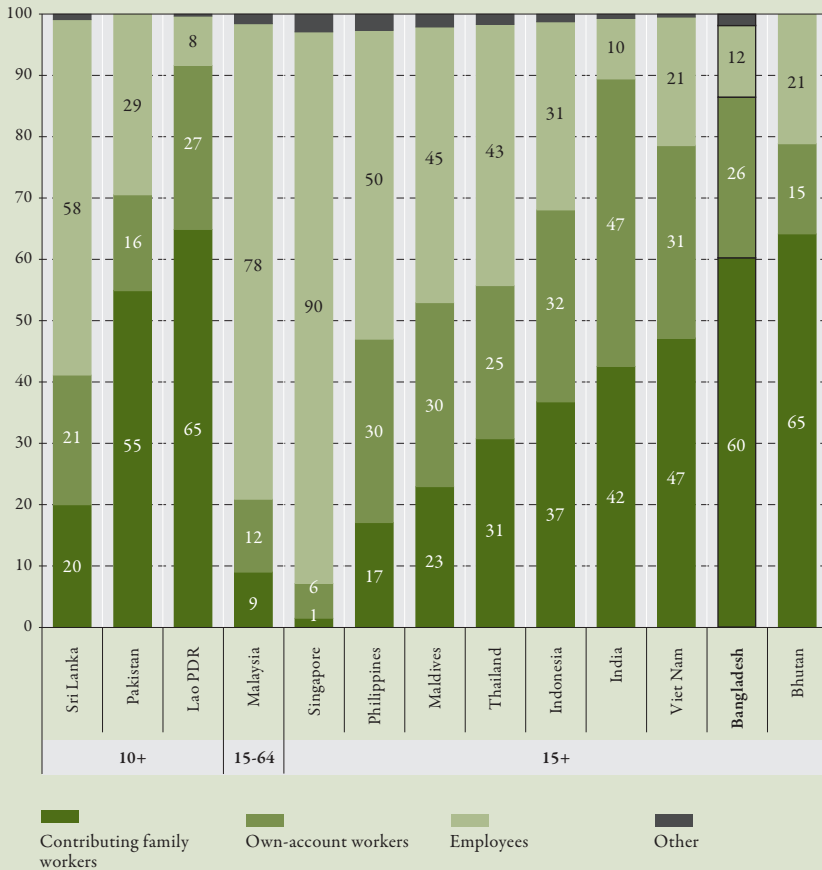
Finally, there is evidence that women get significantly lower salaries than their male colleagues. This is true for both the formal and the informal economy (see Chapter 3 for informal economy wages). In particular, there is a greater percentage of women than men for the lower income levels – from 0 to 5,000 taka per month (\$65) – while men have a higher concentration in the higher income levels (BBS, 2010). This may be partly explained by the fact that when employed, women tend to work fewer hours than men: in 2010, around 40 per cent of female workers were employed for less than 40 hours a week, compared with 10 per cent of male workers. It is also likely due to the fact that many are concentrated in low-wage sectors (see below).

*Women are also the primary driver of the RMG sector, which have left them vulnerable to recent occupational hazards ...*

In terms of sectors, the majority of women – 65 per cent – work in the agricultural sector compared with 40 per cent for men. Despite the fact that women do not generally have ownership over land and tools necessary for agriculture, their labour has been a vital part of the success that Bangladesh has had in agricultural productivity (see Chapter 1 for more). And while the share of men and women employed in manufacturing is roughly the same, the vast majority of RMG workers are in fact women – 80–85 per cent.

<sup>16</sup> In Lao PDR, the large share of vulnerable employment might be partly explained by the age coverage, as Lao’s Labour Force survey covers the population over 10 years old instead of that over 15 years old.

**Figure 2.6 Employment status of women:**  
**A cross-country perspective (most recent year)**  
 (percentages)



Note: Figures based on ILO's estimations. Gender gap defined as the difference between male and female employment rate. Averages weighted by country's population by age group.  
 Source: ILO, Key Indicators of the Labour Market (KILM), 7th edition.

And while this is a positive development in terms of independence and empowerment as discussed above, in some instances the work in the sector has been associated with a number of negative factors, notably concerns about occupational health and safety (Box 2.5). Two recent industrial disasters in Dhaka have brought to light the unsafe working conditions in many of the 4,500 garment factories in Bangladesh. First, in November, 2012, a factory fire at Tazreen Fashions in Dhaka claimed more than 100 lives;

### Recent occupation accidents in RMG sector and the ILO's high-level mission to Dhaka

In the aftermath of the collapse of the Rana Plaza Building, the ILO sent a high-level mission to Dhaka in May, 2013 to show solidarity to RMG workers and draw attention to the issue of occupational safety and health in Bangladesh's manufacturing sector. The ILO mission reached an agreement with the tripartite partners – government, labour and industry – to develop a plan of action to prevent further tragedies in Bangladesh's industries. Among the steps to be followed, include the following:

- Introduce a new labour reform package in June 2013 to the Bangladeshi parliament in order to provide fundamental rights to freedom of association and the right to collective bargaining.
- Assess the structural safety of buildings, including preparedness for fire, of all active export-oriented RMG factories by the end of 2013, including provisions for relocation of factories that are deemed unsafe.
- Provide skills training programme – under the leadership of the ILO – to the workers that sustained injuries in the recent industrial disasters (including workers that were affected by the fire at Tazreen Fashions in 2012).
- Recruit 200 labour and factory inspectors within 6 months and make necessary changes to upgrade the Department of Chief Inspector of Factories and Establishments to a Directorate, making provisions for the following: (i) annual budget to run its regular activities; (ii) recruitment of another 800 inspectors; and (iii) provide necessary infrastructure for its proper functioning.
- Fully implement the National Tripartite Plan of Action on Fire Safety in the RMG industry in Bangladesh and extend its scope to include structural integrity of buildings and occupational safety and health concerns.
- Finally, follow up to be done by the joint ILO-IFC Better Work Programme after the new labour law is adopted in Bangladesh to ensure that the law is properly implemented and that RMG workers enjoy the right to freedom of associate and collective bargaining.

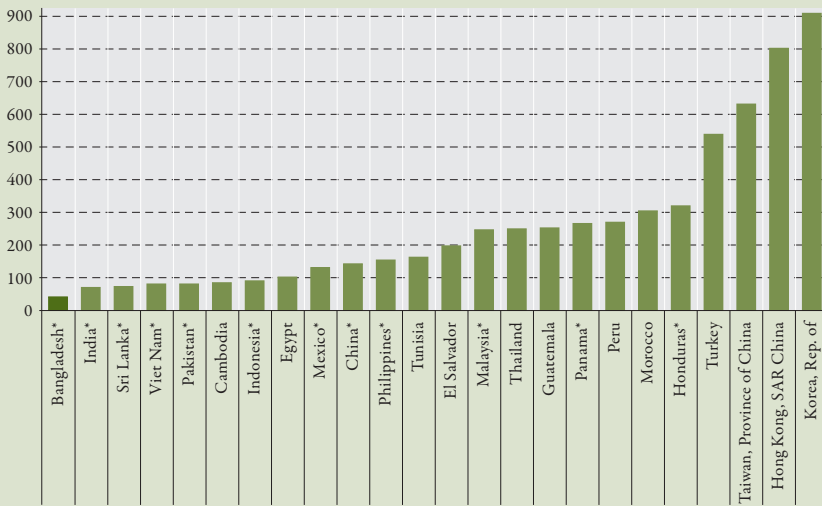
The ILO also called on the government to hold those responsible for the tragic events that have occurred in the last six months accountable and lawful actions are taken to prevent such industrial accidents in the future.

second, a building collapse in Savar (district on the outskirts of Dhaka) at Rana Plaza claimed the lives of over 1,100 workers in April 2013. In both of these cases, more than three-fourths of the casualties included women. Part of the challenge lies in the fact that more than 80 per cent of all manufacturing in Bangladesh is done informally, and workers earn three times less than their formal counterparts (see Chapter 3 for more).

...which has brought to the fore other challenges with respect to the sector.

These events have brought to light other concerns regarding overall working conditions, including pay levels for garment workers. As of August 2013, workers at the entry-level Grade VII received a minimum wage of only US\$ 39 per month – roughly half of the lowest applicable rate in other major garment-exporting countries, such as Cambodia (US\$ 80), India (US\$ 71), Pakistan (US\$ 79), Sri Lanka (US\$ 73) and Viet Nam (US\$ 78) (see Figure 2.7). In China, the relevant provincial minimum wages now range from US\$ 138 in Guangdong to US\$ 262 in Shanghai. Given the low wages and tough working conditions, it is hardly surprising that the ILO’s 2010 “Monitoring and Assessing Progress on Decent Work in Bangladesh” report showed that only three out of the 16 decent work indicators saw improvements in the RMG sector.<sup>17</sup> Other studies have shown that there are also a number of negative externalities caused by women’s disproportionate participation in the RMG sector (Box 2.6).

**Figure 2.7 Monthly minimum wages in the garment industry in top apparel-exporting countries, as of August 2013, US\$ (lowest applicable rate only)**



Note: All rates are given as valid on 1 August, 2013. The graph shows only the lowest applicable rates for the garment or textile sector; daily and hourly minimum wage rates have been converted into their monthly equivalent. \* Indicates countries with more than one applicable minimum wage (e.g. with different rates by region, enterprise size or grade).

Source: ILO Regional Office for Asia and the Pacific, based on official sources.

<sup>17</sup> Indicators that improved: fundamental principles and rights at work; social protection; safe work environment. Indicators that did not improve: employment; social dialogue and tripartism; employment opportunities; adequate earnings and productive work; decent hours; combining work, family and personal life; work to be abolished; stability and security of work; equal opportunities and treatment in employment; social security; social dialogue, workers’ and employers’ representation; economic and social context for decent work; improvement of data collection and statistics.

**Negative externalities of women in the RMG sector**

Poor working conditions, unrealistic production expectations, and low wages are just a few of the ways in which women in Bangladesh's RMG sector suffer. Others include:

- *Difficulty in providing childcare:* Many of the women working in this industry are poor and travel long distances to work daily. Unless they can afford childcare, children are left alone or with inadequate supervision. A study of women in Bangladesh showed that both the prevalence and duration of breastfeeding, which has been shown to play an important role in the growth, development and survival of infants, was significantly lower for those working in the RMG industry (Shefa et al., 2010).
- *Lack of bargaining power:* Unlike men, women in Bangladesh are given few alternatives to work. Other opportunities for women include domestic service (mainly in urban areas) and day labour (in rural areas.) Garment work, however, pays more than either of these options. Without alternatives, women have little room to negotiate for better wages and working conditions. Moreover, organizing through trade unions is difficult due to employer hostility and political corruption within unions (Kabeer and Mahmud, 2004).
- *No upward mobility:* There are no career pathways or opportunities for advancement for women in the RMG sector. Women generally work as helpers or machinists, attending to tasks such as cutting, sewing, ironing, folding and packing. Rarely, women may be employed as line supervisors and quality controllers, but there are no women in leadership positions, e.g. "cutting masters" (Kabeer and Mahmud, 2004). The ad hoc nature of the work further dampens the chances for women to make a permanent living in the RMG sector.

---

## C POLICY CONSIDERATIONS

Women have made an important contribution to the development path of Bangladesh, as well as the modernization of rural society and agricultural production. Their contribution has been facilitated by important strides towards gender parity across several dimensions of socio-economic status. However, a number of important disparities persist, notably in terms of educational attainment, labour market outcomes and working conditions. Indeed, the employment rate of women in 2010 at 58 per cent is close to 30 percentage points lower than their male counterparts. Moreover, as salaried employees, women are often underemployed or are more likely to be confronted with tough working conditions – leaving them more vulnerable and earning considerably less than men. Yet the experience of microfinance in rural areas of Bangladesh highlights the important role that women can – and have – played if the right policies are put in place. This section will point to a few areas, based on international examples, which could help policy-makers leverage this experience further.

### 1 IMPROVE WORKING CONDITIONS IN THE RMG SECTOR

Over 80 per cent of the workers in the RMG sector are women and given the unsafe working conditions brought to light in the last year, it is key to enhance the safety of the workplace and the overall working conditions that women (and other workers) face. The recent “Accord on Fire and Building Safety in Bangladesh” signed by international retailers and trade unions is a vital step in the right direction. The objective of the accord is to ensure a safe and sustainable garment sector where workers can work without fear of fire, building collapse, or other such accidents.<sup>18</sup> As highlighted by the accord and the ILO’s mission, there are several concrete measures that can be taken immediately to ensure safety and health of all workers. In particular:

- *Policies to deal with unsound factories:* Recent events in Bangladesh highlight the issue of sub-standard infrastructure as some of the factories were

<sup>18</sup> [http://www.ilo.org/global/about-the-ilo/activities/statements-speeches/WCMS\\_213295/lang-en/index.htm](http://www.ilo.org/global/about-the-ilo/activities/statements-speeches/WCMS_213295/lang-en/index.htm)

built without the right permit and with little adherence to safe building standards. There is a dire need to inspect all the existing factories in the RMG sector. As the ILO's high-level mission to Dhaka pointed out, there might be the need to relocate some of the factories to safer buildings while the existing ones are being inspected and repaired to ensure safety and reliability. Even factories that are deemed safe, measures are needed to address the risk of factory fires.

- *Enhance labour inspection:* Another important aspect of occupational safety and health is the institutional capacity of the government to conduct regular labour inspection of factories across Bangladesh. Since a relatively large share of manufacturing happens informally (see Chapter 3), the need to strengthen labour inspection is ever more important. The ILO negotiated agreement has called for 200 labour and factory inspectors by the end of 2013 and to make necessary changes to upgrade the Department of Chief Inspector of Factories and Establishments to a Directorate, making provisions for the following by 2014: (i) annual budget to run its regular activities; (ii) recruitment of another 800 inspectors; and (iii) necessary infrastructure for its proper functioning. Meanwhile, there is a need to adopt international labour inspection standards, e.g. by allowing inspectors to initiate civil proceedings against violators. A number of countries in the region such as Indonesia, Malaysia and Viet Nam could serve as an example for Bangladesh, where the inspectors are properly trained and given the authority to initiate civil proceedings and levy fines against violators.
- *Allow for collective bargaining rights in the RMG sector:* As recent events have demonstrated, compliance of labour laws and regulations is the weakest in the RMG sector and it is also the sector where unions do not exist. The only way to ensure compliance of labour laws is to allow for unions to exist and thrive, which in turn will provide a countervailing force to downward pressures on wages and working conditions. Indeed, the ILO's high-level mission to Dhaka has called for a new labour reform package in 2013 to provide fundamental rights to freedom of association and to collective bargaining. This is a welcome step but similar tripartite efforts are needed at all levels of work organization. More specific gender-related policies could include encouraging (or requiring) firms to include a certain number of women in the ranks of managers and officers.

---

## 2 ADDRESS THE GAP IN EDUCATIONAL OUTCOMES

Despite recent improvements, educational outcomes in Bangladesh are still below those of most of its regional counterparts. Of particular note is the challenge to promote enrolment beyond secondary education for women. Programmes such as the Stipend of Primary Students (previously known as Food for Education) have helped greatly in encouraging poor families to send their children to primary school (see Chapter 4 for more), but this needs to be scaled up in a manner so as to encourage tertiary education among women. Indeed, enrolment rates for tertiary education are still below those of many other countries in the region. Looking at experiences elsewhere, there are several potential ways to address the gap in educational outcomes, including:

- *Encourage women to stay in education and take up higher studies:* Further efforts are needed to incentivize women in Bangladesh to stay in school and continue higher education studies. The benefits – both at the individual and at the macro level – of improved educational attainment of women have been well documented in this chapter. To achieve this, the government could consider the following initiatives:
  - *Incentivize tertiary education for women:* Bangladesh can draw from the experience of Malaysia, where the government put in place affirmative action policies to improve gender equity in tertiary education.<sup>19</sup> For example, in 1970, enrolment at the University of Malaysia was 70 per cent male and 30 per cent female; by 1995, enrolment shifted to 43 per cent male and 57 per cent female. Targeting the most vulnerable women can also yield positive returns as was the case in Malaysia. Indeed, the ethnic group of Bumiputera in Malaysia experienced the largest improvements relative to men.
  - *Increase the ratio of female teachers:* The Bangladeshi government has already put in place policies aimed at incentivizing the recruitment of female teachers. In fact, in primary school where the ratio of teachers is approximately 43 per cent, enrolment rates are highest among women. However, this figure drops to 20 per cent or less for secondary and tertiary education – two areas where additional efforts to encourage women to stay in education are merited.

<sup>19</sup> Fernandez-Chung et al., 2011.



### 3 GENDER-RESPONSIVE LABOUR MARKET POLICIES

One particular area of weakness in terms of gender parity has been employment outcomes. Moving forward and building upon the success of women and their contribution in other areas, putting in place a number of gender-responsive labour market policies could pave the way for more equitable employment outcomes. Some of the ways to do this include:

- *Make female employment a priority:* As is evident with the experience of MFIs in rural Bangladesh, economic and labour market participation of women tends to be the most effective way of promoting gender equity and enhancing overall welfare of women. This could be achieved by incorporating into the NAP's overarching mandate, goals associated with improved labour market outcomes. This could include, for example, establishing targets with the NAP for closing the employment rate and labour force participation gaps. Public employment schemes could also be aimed towards women, e.g. programmes in the social sector aimed at poverty reduction could enhance the delivery of health and social policies while improving job creation efforts for women. Traditionally, the emphasis of such schemes has been placed on projects that tend to be male dominated.<sup>20</sup>
- *Encourage female participation in vocational training programmes:* While the government of Bangladesh – with support from the ILO – has been developing strategies to increase women's participation in Technical and Vocational Education and Training (TVET), more needs to be done in this area to achieve gender parity. Indeed, currently, only 13 per cent of the students in public technical and vocational training institutions in Bangladesh are women. Effective vocational training measures will ensure strong links between the design of programmes offered and the needs of employers – thus improving the likelihood that participants end up in formal employment arrangements.
- *Encourage female entrepreneurship:* Enhancing women's entrepreneurial capabilities can potentially lead to better employment outcomes and reduction in vulnerable employment. To achieve this, greater access to

<sup>20</sup> ADB and ILO, 2011.

---

important resources such as credit and market-related information could be envisioned through business advisory centres. These centres would provide advice on both the bureaucratic and economic aspects needed for starting and running an activity. Such centres should allow men and women equal access, and facilitate women's participation – for example they should be located near households and have flexible opening hours. Successful experiences such as those developed in China can provide examples of best practices (Box 2.7). And finally, ensuring adequate property rights among women will be an important complementary policy tool for encouraging entrepreneurship.

#### **Box 2.7 Women entrepreneurs in China**

At the beginning of the financial economic crisis, 75 per cent of women workers in the province of Hangzhou (China) were employed in limited liability companies, private companies and foreign firms, mostly in the manufacturing industry. With the advent of the crisis, the Chinese government delivered 4,000 billion yuan as an economic stimulus to boost domestic demand. In particular, the government implemented preferential tax policies to stabilize the labour market and to help women find a job. A part of the total resources was devoted to small loan programmes and training courses that were organized to enhance entrepreneurial abilities. As a result, when female workers were laid off, many of them were able to start their own business. Similarly, in the Chinese city of Tianjin, a microfinance programme was implemented during the financial economic crisis with the specific aim of helping women start their own business (ADB and ILO, 2011).

## 4 CONTINUED PROGRESS TOWARDS OVERALL GENDER EQUALITY

Through the implementation of a National Action Plan (NAP), which was adopted as part of the government's overall National Action Plan for Women's Advancement (NPWA), the Bangladeshi government has made considerable efforts in removing gender disparities. Programmes such as Vulnerable Group Feeding have improved the lives of the poorest women of rural Bangladesh by providing them much needed food aid but also training on how to build up savings (see Chapter 4 for more). Meanwhile, female participation in microfinance activities has led to an increased empowerment of women in terms of decision-making, social acceptance and awareness and political involvement. But the general welfare improvements that have been achieved need to be leveraged to further close the gender gap in certain areas, in particular:

- *Closing the gap in health outcomes:* As this chapter showed, despite the gains made in the health status of women, too many women die during childbirth and almost 50 per cent of girls under the age of 5 are malnourished. Bangladesh currently spends slightly above 3 per cent of its GDP on health care – per capita spending of around US\$17. This is very low compared with other countries in South East Asia. There is a need to establish facilities for childbirth with adequate staff, and health centres that distribute nutritional supplements during pregnancy and after childbirth. Bangladesh can draw from the experience of Thailand where the government put in place a targeted programme in 2001 – called “ThaiHealth” as part of the Health Promotion Act of 2001 – to improve the overall health of men and women and to ensure gender parity in health outcomes.<sup>21</sup>
- *Increased representation at all levels of government:* Women are under-represented in local government and the government's civil service. As the country has put in place mandated political representation at the national level, it could consider similar laws for the local government and the civil service. More women in the local government and civil service will also enhance the delivery of social programmes for women. Countries such as India have put in place a quota system for scheduled caste. A similar approach could be envisioned in Bangladesh for women.

<sup>21</sup> Adulyanon, S., 2012.

- 
- *Continued efforts towards fair and equitable land ownership:* While the government has changed national laws and put in place policies to address the disparity in land ownership (mandated marriage registration, Khasland programme to promote joint titles between men and women, anti-discriminatory laws, etc.), women are still marginalized with regard to owning land and property. There is a need for continued progress in this regard, particularly by leveraging the role played by the NGOs. Studies show that if labour and resources were reallocated to women's plots of land, household production of crops would increase.<sup>22</sup> Peru has taken significant steps to strengthen property rights by setting up the Praedial Registration System, which offers a quick and inexpensive way to convert informal property in the hands of a large proportion of the population into legally recognized private property, as a source of capital for the grassroots development of these countries. Perhaps such a system could be envisaged in Bangladesh with a view to targeting particular women.
  - *More effective delivery of programmes for women:* Currently, programmes under the National Action Plan (NAP) are run by 12 different ministries – this creates room for inefficiencies (Box 2.8). While it is true that addressing gender disparities is cross-cutting in nature, there may be efficiency gains from consolidating some of the programmes – conditional on undertaking a thorough evaluation of programmes and ministries that implement them. Improved targeting and delivery of programmes will increase the likelihood of success in addressing gender asymmetries.

<sup>22</sup> Udry, 1996.

**Box 2.8 Challenges facing the National Action Plan (NAP)**

There remain a number of challenges regarding the implementation of the National Action Plan (NAP), which was adopted as part of the government's overall National Action Plan for Women's Advancement (NPWA), especially regarding service delivery.

- Since there are several ministries involved in the delivery of the NAP, the programme as a whole has been somewhat ineffective and wasteful. The Ministry of Women and Children Affairs (MoWCA) is assigned to lead women's development, yet they have no explicit authority or control over the decisions made by the ministries.
- The MoWCA is limited in staff and budget, and is constantly fielding new projects. As a result, it lacks the coordination and monitoring of field operations. It is also slow in providing support assistance to its Women in Development focal points, which would increase program effectiveness.
- The National Council for Women's Development (NCWD), which was created to provide policy directives for the NAP, consists of high-profile, prestigious members. Consequently, they often do not have enough time to allocate to the NCWD.

---

## REFERENCES

ADB. 2005. *Social protection index for committed poverty reduction: Bangladesh Country Report*. Available at: [www2.adb.org/Documents/Reports/Consultant/39261-REG/39261-01-reg-tacr-03.pdf](http://www2.adb.org/Documents/Reports/Consultant/39261-REG/39261-01-reg-tacr-03.pdf) [18 April 2013].

ADB and ILO. 2011. *Women and labour markets in Asia: Rebalancing for gender equality*. Available at: [www.adb.org/sites/default/files/pub/2011/women-labor-markets.pdf](http://www.adb.org/sites/default/files/pub/2011/women-labor-markets.pdf) [18 April 2013].

Akhter, S. et al. 1996. "Credit programmes, patriarchy, and men's violence against women in rural Bangladesh", in *Social Science and Medicine*, Vol. 43, No. 12, pp. 1729–1742.

Bangladesh Bureau of Statistics (BBS). 2010. *Statistical Yearbook of Bangladesh 2010*. Available at: [www.bbs.gov](http://www.bbs.gov).

Basher, A. 2007. "Empowerment of microcredit participants and its spill-over effects: Evidence from the Grameen Bank of Bangladesh", in *Journal of Developing Areas*, Vol. 40, No. 2, pp. 173–183.

Basu, K.; Ranjan, R. (2002). "The Collective Model of the Household and An Unexpected Implication for Child Labour", Working paper No. 2819, The World Bank. (Washington, DC).

Beaman, L. et al. 2009. "Powerful women: Does exposure reduce bias?", in *Quarterly Journal of Economics*, Vol. 124, No. 4, pp. 1449–1496.

Bharadwaj, P. 2012. *Sex-selective investments in prenatal care in India China, and Bangladesh* (San Diego, Center for Effective Global Action, University of California).

BRAC. 2013. [www.brac.net](http://www.brac.net).

Caldwell, J. 1979. "Education as a factor in mortality decline", in *Population Studies*, Vol. 33, No. 3, pp. 395–413.

Case, A.; Deaton, A. 2003. *Consumption, health, gender, and poverty*, Policy Research Working Papers No. 3020 (Washington, DC, World Bank).

Fernandez-Chung, R. et al. 2011. *Affirmative action policies in Malaysian higher education* (draft) (Washington, DC, World Bank).

- Fort, L.; Tembon, M. 2008. *Girls' education in the 21st century: Gender equality, empowerment and economic growth* (Washington, DC, World Bank).
- Friedman, W. et al. 2011. *Education as liberation?* Working Paper No. 16939 (National Bureau of Economic Research). Available at: [www.nber.org/papers/w16939.pdf](http://www.nber.org/papers/w16939.pdf).
- Ha, B. et al. 2010. *Youth employment in crisis*, Discussion Paper No. 201 (Geneva, International Institute for Labour Studies).
- Hashemi, S.; Riley, A.; Schuler, S. 1996. "Rural credit programmes and women's empowerment in Bangladesh", in *World Development* (Great Britain), Vol. 24, No. 4, pp. 635–652.
- ILO. 2010. *Monitoring and assessing progress on decent work in Bangladesh* (Dhaka and Geneva).
- Institute for Global Labour and Human Rights, 2010. "Bangladesh Garment Wages the Lowest in the World – Comparative Garment Worker Wages." (Pittsburgh). Available at: <http://www.globallabourrights.org/alerts?id=0297> [07 May 2013].
- Kabeer, N. 2008. *Citizenship narratives in the absence of good governance: Voices of the working poor in Bangladesh*, Working paper 2008–19 (Brighton, Institute of Development Studies).
- Kabeer, N.; Mahmud, S. 2004. "Rags, riches, and women workers: export-oriented garment manufacturing in Bangladesh", in M. Carr (ed.): *Chains of fortune: Linking women producers and workers with global markets* (London, Commonwealth Secretariat), pp. 133–164.
- Khandker, S. 1999. *Fighting poverty with microcredit: Experience in Bangladesh* (New York, Oxford University Press).
- OECD. 2008. *Gender and Sustainable Development* (Paris).
- Oster, E. 2005. «Explaining Asia's 'missing women': A new look at the data – comment», in *Population and Development Review*, Vol. 31, No. 3, pp. 529, 535.
- Sen, A. (1999). *Development as Freedom*, Oxford University Press.
- Shefa, J. et al. 2010. "Awareness on breastfeeding among readymade garments (RMG) working women in Dhaka City", in *Bangladesh Journal of Medicine*, Vol. 21, No. 2, pp. 65–70.

---

Strauss, J.; Thomas, D. 1995. "Human resources: Empirical modelling of household and family Decisions", in *Handbook of development economics*, Vol. 3 (Amsterdam, Elsevier), pp. 1883–2023.

Udry, C. 1996. "Gender, Agricultural production, and the theory of the household", in *Journal of Political Economy*, Vol. 104, No. 5, pp. 1010–1045.

Wolfensohn, J. 1999. *Education and development* (Washington, DC, World Bank).



## CHAPTER 3

# INFORMALITY AND POOR WORKING CONDITIONS: CHALLENGE FOR EQUITY AND GROWTH

### INTRODUCTION

One issue of particular relevance to Bangladesh is the persistently high levels of informality. In fact, as of 2010, more than 87 per cent of employment in Bangladesh was informal – one of the highest figures in the region. And while informal employment provides an important source of income for many individuals, in Bangladesh it is generally characterized by low pay, poor working conditions, absence of social protection and low productivity. In order to ensure that the growth of the Bangladeshi economy translates into more and better jobs, it is crucial for the country to address the challenges facing the informal economy. The problem of informal employment is rooted in the inability of developing countries to create sufficient jobs for a fast-growing labour force.<sup>23</sup>

The purpose of this chapter is first, to examine the composition of the informal work force, including sectoral distribution, class of employment and pay gap between formal and informal workers (section A). The chapter then looks at the determinants of informality based on a database comprising 22 developing countries to gain better understanding of the persistent nature of informality in Bangladesh (section B). The final section concludes by underscoring a three-pronged approach to tackling informality and presents a number of country examples that could serve as a basis for action to improve outcomes related to informal employment in Bangladesh (section C).

<sup>23</sup> ILO Report to the UN Meeting of the LDCs, Istanbul, Turkey, May 2011.

---

## A THE INFORMAL SECTOR IN BANGLADESH

*Bangladesh has one of the highest – and rising – shares of informal employment in Asia ...*

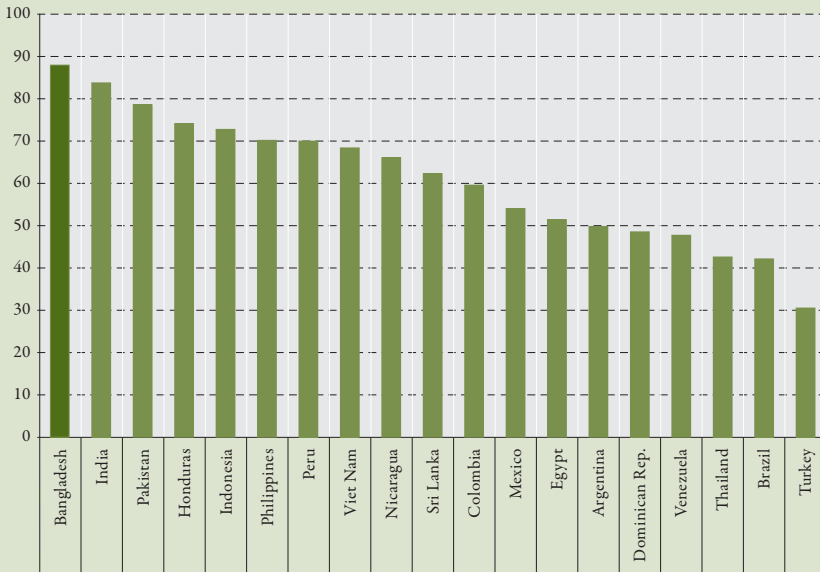
Informal employment comprises all informal jobs regardless of whether they are located in formal or informal sector enterprises or in households, or whether the workers are self-employed (Box 3.1). In the case of Bangladesh, in 2010, informal employment as a share of total employment at 87.7 per cent was among the highest in the region (Figure 3.1, panel A). Among the South Asian countries, India has the second highest share at just over 83 per cent, followed by Pakistan and Sri Lanka at 78.4 and 62.1 per cent respectively. Among the countries in South East Asia, the share of informal employment is considerably lower at 72.5 per cent in Indonesia, 70.1 in the Philippines, 68.2 in Viet Nam and 42.3 in Thailand.

Despite the period of sustained economic growth over the past two decades, informal employment as a percentage of total employment actually increased, rising from 75 per cent in 1999–2000 to more than 87 per cent in 2010 (Figure 3.1, panel B). Interestingly, although the share of informal employment among women is higher, the increase among men was considerably sharper over this period: between 1999–2000 and 2010, informal employment for men increased 12 percentage points from 73 per cent to 85 per cent, while for women it increased from 85 per cent to 92 per cent.

Meanwhile, most workers in informal employment are engaged as self-employed and unpaid family workers, albeit with considerable variation across gender. For women, 60 per cent of all workers are informal, unpaid family workers and an additional 19 per cent are self-employed informal workers, including both agriculture and non-agriculture (Table 3.1). As a result, less than 7 per cent of women are regular, formal employees. Even among men, less than 12 per cent are formal employees with the vast majority of men either informally self-employed (36 per cent) or informal day labourers (30 per cent).

Figure 3.1 Informal employment as a share of total employment (percentages)

Panel A. A cross-country comparison, 2009/10



Panel B. Informal employment in Bangladesh, 1999–2010



Note: Data for the Philippines refer to 2008.

Source: Statistical update on employment in the informal economy, ILO Statistics, June 2012 (panel A) and Bangladesh Bureau of Statistics (panel B).

### Box 3.1 Definitions: Informal economy, informal sector and informal employment

*Informal economy:* The informal economy is the diversified set of economic activities, enterprises and jobs that are not regulated or protected by the state.

*Informal sector:* According to the International Conference of Labour Statisticians (ICLS) held in 1993, the informal sector refers to employment and production that takes place in small and/or unregistered enterprises. This definition was expanded by the ICLS in 2003 to include certain types of informal wage employment, employment outside informal enterprises – this broader concept is called informal employment (see below).

*Informal employment:* According to the 2003 ICLS, informal employment includes: (i) *self-employment in informal enterprises* (small unregistered or unincorporated enterprises) namely employers, own account operators, unpaid contributing family workers; (ii) *wage employment in informal jobs* (wage workers without legal protection) – non-standard employees of informal enterprises, non-standard employees of formal enterprises, casual or day labourers, and industrial outworkers (also called homeworkers).<sup>24</sup>

Table 3.1 Employment status by gender and nature of employment, 2010

	Men (%)		Women (%)	
	Formal	Informal	Formal	Informal
Employee	11.5	4.6	6.7	2.4
Employer	0.1	0.3	0.0	0.1
Self-employed in agriculture	0.2	19.1	0.1	11.7
Self-employed in non-agriculture	0.3	17.2	0.1	7.1
Unpaid family worker	–	9.1	–	60.0
Casual/irregular paid worker	0.8	2.7	0.6	1.7
Day labour in agriculture	0.6	16.6	0.2	2.9
Day labour in non-agriculture	0.6	13.5	0.3	3.5
Domestic worker in private household	0.4	2.5	0.1	2.7
<b>All</b>	<b>14.5</b>	<b>85.5</b>	<b>8.0</b>	<b>92.0</b>

Source: ADB (2010).

<sup>24</sup> This is the expanded definition endorsed by the ICLS in 2003.

*...with informality notably high in low-productivity sectors ...*

Sectors that account for the largest shares of employment are often the sectors with the lowest value added (Table 3.2). For instance, close to 40 per cent of all workers are informally employed in agriculture, but the sector has the lowest value added per person – despite sizeable gains in productivity in certain crops (Chapter 1). Similarly, informal workers in manufacturing and wholesale and retail trade account together for an additional 20 per cent of all employment, but both sectors contribute relative low amounts of gross value added. Furthermore, informal workers in storage and transportation and community and personal services jointly account for an additional 11 per cent of total employment with output per employment also relatively low in these sectors. Sectors that account for smaller shares of informal employment tend to have relatively higher value added per person, noting that sectors such as mining and quarrying and electricity, gas, steam and air conditioning, are also more capital-intensive by nature.

**Table 3.2 Informal employment and labour productivity by type of economic activity, 2010**

	<b>Informal employment</b> (% of total informal employment)	<b>Gross value added per employee</b>
Agriculture, hunting, forestry and fishery	39.4	47.2
Manufacturing	9.5	185.0
Wholesale and retail trade; repair of vehicles and motorcycles	9.1	140.1
Transportation, storage and communication	5.6	182.2
Other community and personal services	5.4	191.8
Construction	4.1	213.5
Hotels, accommodation and food-service activities	1.1	64.0
Education	1.0	143.4
Real-estate and other business activities	0.6	697.6
Human health and social-work activities	0.4	374.5
Finance	0.4	335.0
Public administration and defence; compulsory social security	0.3	344.8
Mining and quarrying	0.1	780.4
Electricity, gas, steam and air-conditioning supply, water	0.1	612.6

Note: Gross value added per employee is calculated by dividing total value added in an industry by the number of jobs in that industry.

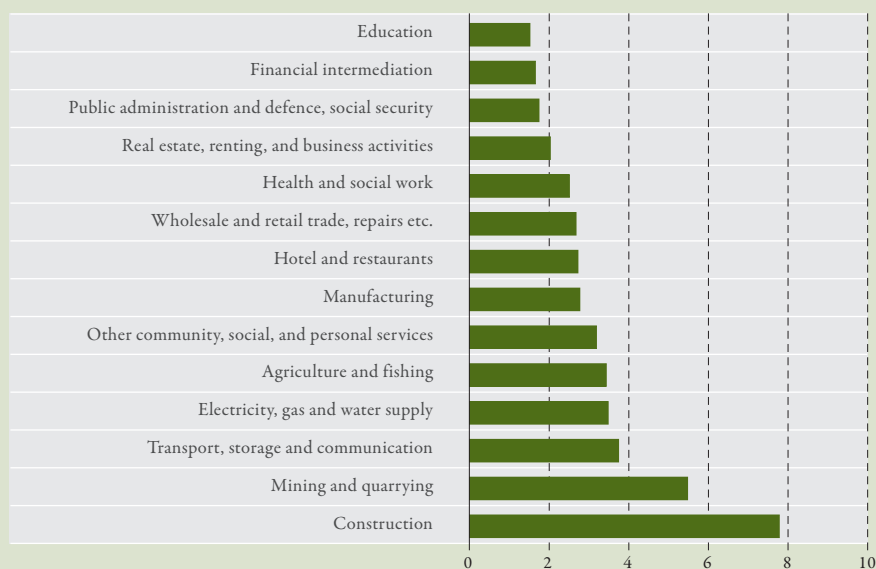
Source: ADB (2010).

*...with relatively significant gaps in pay and social protection coverage.*

As one would expect, there are significant wage gaps between formal and informal sector workers in Bangladesh. The largest gap is present in the construction sector, where the average weekly wage in formal construction is eight times higher than in informal construction (7,278 Bangladesh taka (BDT) compared with 942 BDT) (Figure 3.2). The second largest wage gap is in mining and quarrying, where the formal sector wages are 5.4 times larger. In other sectors, the gap is also of significant magnitude, albeit to a lesser extent, e.g. transport, storage and communication (3.7); electricity, gas and water supply (3.4); agriculture and fishing (3.4); and community, social and personal services (3.1). In addition, the industries with large wage gaps are also the ones with the largest shares of informal employment out of total employment.

There are also significant gaps in access to work-related benefits. For example, while more than 87 per cent of formal workers receive sick leave, less

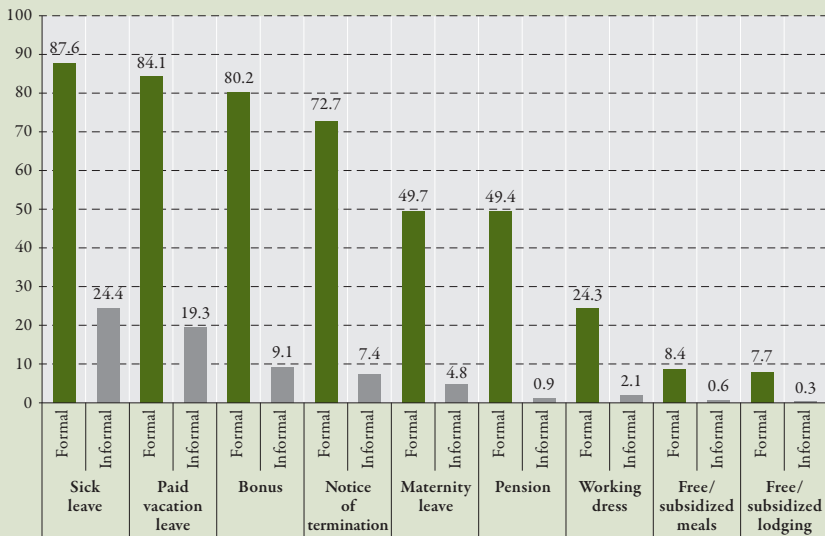
**Figure 3.2 Wage gap: Ratio of formal to informal, 2010**



Source: ADB (2010).

than a quarter of informal workers have access to such benefits (Figure 3.3). Similarly, while 84.1 per cent of formal workers receive paid vacation, only 19.3 per cent of informal workers do. Given that informal workers constitute the vast majority of workers in Bangladesh, the overall breadth of coverage is relatively low (see Chapter 4 for a more detailed discussion regarding social assistance programmes and coverage).

**Figure 3.3 Percentage of wage workers receiving benefits by nature of employment and type of benefit, 2010**



Source: ADB (2010).

---

## **B FACTORS INFLUENCING INFORMAL EMPLOYMENT: AN EMPIRICAL OVERVIEW**

In a country with almost 9 workers out of 10 in informal employment, it is crucial to better understand the determinants of informality. Indeed, the persistence of informality despite impressive economic growth raises a number of important questions. Yet, informality is a multidimensional phenomenon; a range of cross-country studies reveal that the determinants of informality are heterogeneous, and therefore a variety of factors – both macro and micro – underlie the developments in informal employment. In particular, the literature indicates that the microeconomic factors affecting the incidence of informal employment vary across categories of workers (Box 3.2). With limited individual-level data available, the remainder of this section focuses on assessing the macroeconomic determinants of informality in Bangladesh, using a principal component analysis (PCA) to summarize information from a large set of variables into a reduced number of new variables commonly referred to as “components” (see Appendix A for more details). The variables used are drawn from the literature on the macroeconomic determinants of informality in an attempt to assess the key factors underlying the persistently high incidence of informal employment in Bangladesh.

### *Institutional factors related to operating and financing a business are key explanatory factors ...*

Previous studies report that the size of the informal economy is negatively affected by the rule of law and the effectiveness of the legal system in enforcing private contracts.<sup>25</sup> It also shows that the efficiency of the public administration and taxation authorities tends to be associated with lower levels of informal employment.<sup>26</sup> Indeed, the analytical exercise based on the PCA shows that Bangladesh is among countries that have a larger share of informal employment and lower favourability ratings in terms of the business environment (Figure 3.4). The business favourability ratings are based on a host of factors related to proper functioning of businesses in a country, such as efficiency of the public administration, taxes, and regulation.

<sup>25</sup> See, for example Dreher and Schneider (2006); Johnson et al. (1998); Friedman et al. (2000); Dabla-Norris and Feltenstein (2005).

<sup>26</sup> Krakowski (2005).

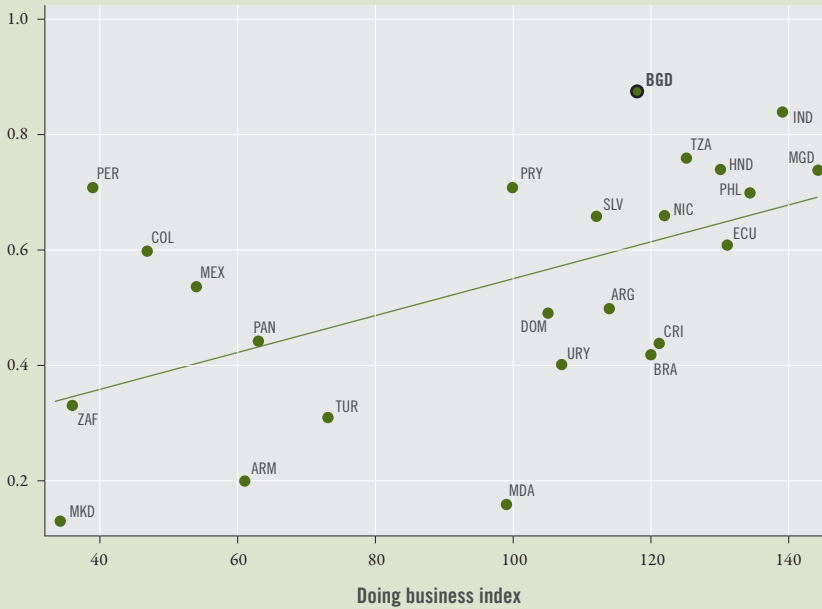


### Box 3.2 **Microeconomic determinants of informality: Cross-country evidence**

A number of studies have explored the microeconomic determinants of informality, starting from the observation that the probability of being in informal employment strongly differs across categories of workers. Women are generally more likely than men to be in informal employment both as salaried workers and self-employed. First, this has been related to lower employment opportunities for women in the formal sector of the labour market, which opt for informal employment against their will. Alternatively, different studies have explored the possibility that women prefer informal employment because of the greater flexibility it offers, which allows them to reconcile their work and family duties. In particular, evidence from Goldstein (2000) for Argentina and from Chant (1991) for Mexico demonstrates that women more easily reconcile their market and homecare roles if they work for themselves rather than as employees. Similarly, Maloney (2004) shows that in Mexico half of the women in the informal economy have left their work because they got married and that the presence of young children is also positively correlated to the likelihood of being employed in the informal economy. Conversely, Perry et al. (2007) show that single women are more likely to be in formal employment than married women and men.

Other individual determinants of informal employment appear to be educational attainment and age. In particular, empirical evidence supports the idea of a life-cycle model at the individual level. Young workers with no or little educational attainments initially lack the necessary human and financial capital to start their own business – either as self-employed or entrepreneur – and generally begin their career as wage workers in the informal economy. When they accumulate the necessary experience, they might want to move to the informal sector as self-employed. This is consistent with the finding that in Bangladesh wage employment is more diffuse among youths and self-employment among adults (see Chapter 1). By contrast, young workers with higher educational attainments have a greater probability of getting a formal job at the beginning of their career and generally move to the informal sector for their own will rather than due the absence of opportunities in the formal sector (Maloney, 2004; Saavedra and Chong, 1999; Packard, 2007). Meanwhile, other studies find a positive correlation between the poverty of the household and the likelihood of being employed as salary worker in the informal economy. Finally, if there is a family member with a formal job, then other members of the family are more likely to be employed in the informal sector.

Figure 3.4 Relationship between business environment and informality



Source: ILS calculations; see Appendix A for more detail.

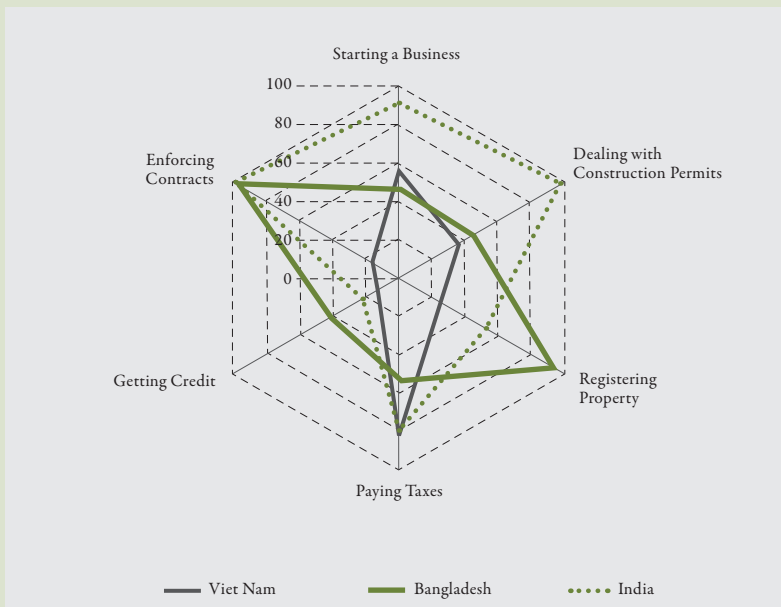
Indeed, while a survey of enterprise shows that the ease of starting a business in Bangladesh is comparable to that of Viet Nam, the ability of firms to thrive and prosper is limited by the constraints firms are confronted with on issues related to construction permits, enforcement of private contracts, registering property and getting credit (Figure 3.5, panel A). Furthermore, tax administration in Bangladesh is a major constraint facing businesses (Figure 3.5, panel B). In fact, more than a third of respondents identified it as a major constraint to operating a business – among the highest in South Asian countries – whereas, in countries such as Indonesia and Viet Nam, only 5 per cent of the enterprises said that the tax administration is a major constraint.

In addition, past studies show that the presence of an efficient banking and financial system that guarantees access to credit tends to be associated with lower levels of informal employment (Rei and Bhattacharya, 2008; Straub, 2005). Adequate access to credit not only lowers the cost to enterprises of

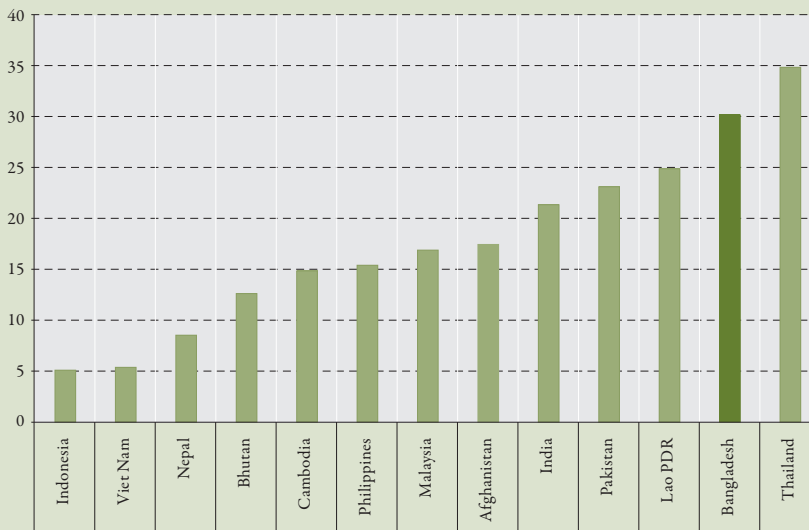
<sup>38</sup> Kozluk et al., 2009.

Figure 3.5 Business and regulatory environment in Bangladesh

Panel A. Business environment in Bangladesh compared with India and Viet Nam



Panel B. Percentage of firms identifying tax administration as a major constraint, 2008/09



Note: For panel A, the rankings have been converted to a 10-point scale – 1 is the best and 10 is the worst ranking. For panel B, the data refer to enterprises surveys taken between 2007 and 2009; these are also the latest years available in the World Bank database.

Source: ILS estimates based on Enterprise Survey, World Bank, 2012).

---

being formal but also staying formal. Indeed, according to the enterprise survey from the World Bank, over 40 per cent of Bangladeshi firms identified access to finance as a major constraint to growth. In comparison with other countries in the region, this is the largest share of firms citing lack of access to finance as a major constraint. For example, in countries such as India and Viet Nam, only 15 per cent of firms said that the lack of access to finance is a major constraint to their growth.

*...along with lower levels of industrial activity ...*

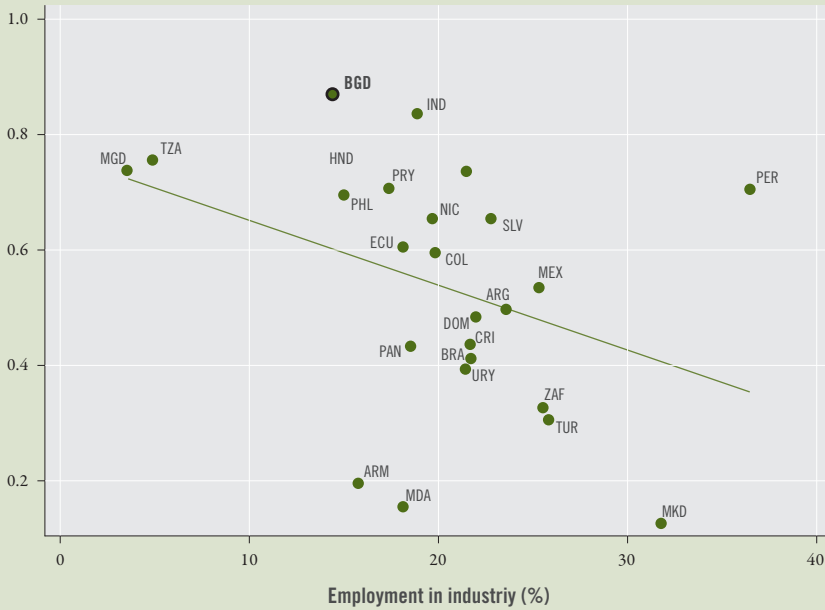
Another potentially relevant macroeconomic determinant of informal employment is the sectoral composition of the economy. Indeed, some sectors are more prone than others to informality – this is the case of the agricultural sector in Bangladesh – and therefore an increase (decrease) in the relative importance of these sectors within the economy will likely lead to an increase (decrease) in the overall level of informality. For example, countries such as Bangladesh and India, where agricultural employment constitutes half of total employment, the size of informal employment also tends to be large. Meanwhile, countries where employment in industry-related activities is higher, the share of informal employment tends to be lower (Peru is among the exceptions; see Figure 3.6).<sup>27</sup>

*...which has affected in some instances working conditions.*

As Chapter 1 documented, Bangladesh has made considerable progress towards relying more on services and manufacturing, yet the share of employment in industry remains low at less than 15 per cent. Part of the challenge lies in the fact that more than 80 per cent of all manufacturing in Bangladesh is done informally, and workers earn three times less than their formal counterparts (see section A). The recent collapse of a factory building in Dhaka highlights while the move towards an “industrial base” is vital for Bangladesh’s economic growth, it is equally important to promote formal manufacturing with better working conditions, and wages and benefits that are commensurate to the value added of the sector (in

<sup>27</sup> Note that within industry there are formal and informal workers; in the case of Peru, a large share of industry workers are informal.

Figure 3.6 Informality and industrial development



Source: IILS calculations; see Appendix A for details.

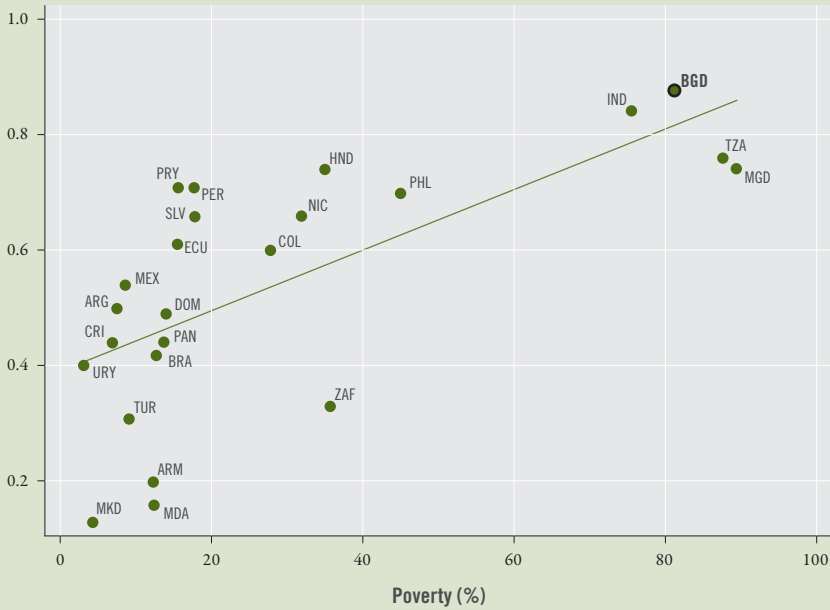
this case, the RMG sector). This should include measures to ensure the occupational safety and health of all workers as highlighted by the recent high-level mission of the ILO to Dhaka (see Chapter 2).

*Poverty is also positively linked to informal employment ...*

Meanwhile, studies find a positive relationship between poverty and informality (Maurizio, 2009). There is disagreement as to the exact nature of the relationship between poverty and informality, but there is consensus that a greater proportion of workers in the informal economy, relative to the formal economy, are from poor households (WIEGO, 2012). Meanwhile, studies show that both poverty and informal employment tend to be highly persistent and that the two processes are shaped by interrelated dynamics in segmented labour markets (Devicenti, Groisman, and Poggi, 2010).<sup>28</sup> Generally speaking, the literature on informality shows that establishing the

<sup>28</sup> There are a lot of studies on informality and poverty, and the few studies that are mentioned here are in no way representative the gamut of different findings and arguments.

Figure 3.7 Poverty and informality



Note: Poverty data refer to the percentage of population living under US\$2 a day.  
Source: IILS calculations; see Appendix A for details.

link between poverty and informality is fraught with the problem of endogeneity, but empirical evidence does show that countries that are poor also tend to have a large share of informal employment out of total employment. For example, a bivariate analysis shows that Bangladesh is among countries that have both higher incidence of poverty (percentage of population living under US\$2 a day) and larger share of informal employment (Figure 3.7). In fact, Bangladesh has made important strides in reducing poverty and its social spending programmes are targeted towards poverty reduction. But despite this progress, absolute poverty remains high compared with other countries in the region (see Chapter 4 for more).

*...along with the absence of minimum wages.*

Based on the sample of 22 developing countries for which the PCA was conducted, countries with higher minimum wages tend to have a smaller

share of informal employment compared with countries with lower minimum wages (Figure 3.8, panel A). Bangladesh and India are among the countries with low minimum wages and a commensurate high share of informal employment. The *ILO's Global Wage Report 2010/11* estimates that in 2009 the real minimum wage in Bangladesh was at 58 international dollars using purchasing power parity conversion rates – the lowest rate among Asian countries with available information (Figure 3.8, panel B). While the garment industry has seen its minimum wage increase by more than three times in the last few years, it remains one of the lowest in the world – US\$0.21 per hour, lower than all the countries in the region (see Chapter 2). Meanwhile, other sectors in the economy also suffer from low wages. In particular, there are 34 sectors for which minimum wages are not set, including electronics and power industries. Meanwhile, for 12 other sectors where minimum wages do exist, they have not been revised in the last 10 years.

Studies show that minimum-wage laws have a positive and significant impact on informal wages – an increase in minimum wage tends to raise the average wage in the informal economy – known as the “lighthouse effect” (Khamis, 2008).<sup>29</sup> What is more, studies show that the impact on informal wages is higher than formal wages. Meanwhile, the “lighthouse effect” seems to work in the case of minimum-wage laws but not necessarily with the social security contribution/registration laws (Khamis, 2008). Of course, complying with the social security laws would mean “formalizing” an informal enterprise (see section C for more). But the fact that minimum-wage laws tend to have a significant and positive impact on informal economy wages provides an avenue for policy-makers to not only improve the working conditions and wages of informal workers but also enhance the likelihood of informal enterprises “formalizing”.

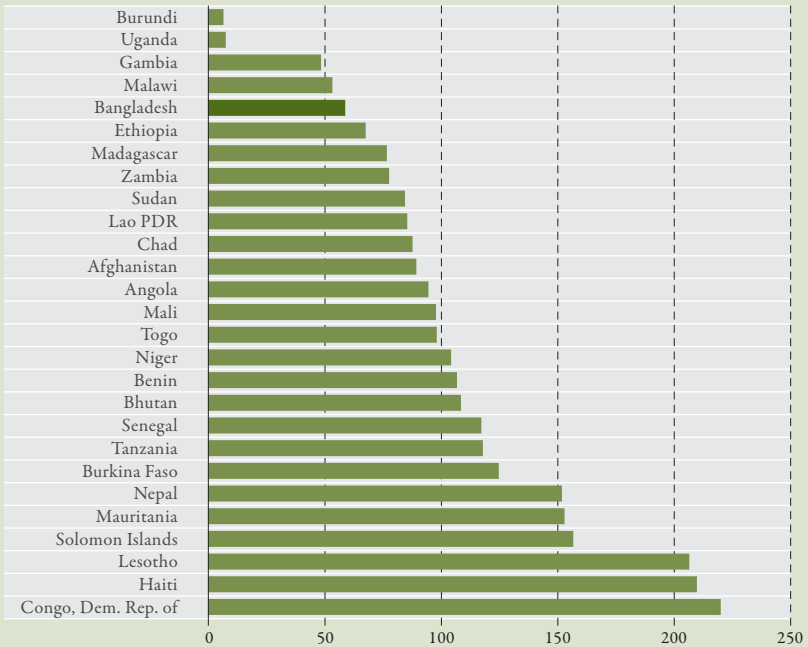
<sup>29</sup> For more, see the World of Work Report 2013.

Figure 3.8 Minimum wage in Bangladesh: Cross-country comparison

Panel A. Higher minimum wages are associated with lower levels of informality



Panel B. Minimum wages in LDCs, monthly minimum wage in PPP\$ (most recent year)



Source: Panel A, ILS calculations (see Appendix A for details); panel B, ILO (2010/11b).



## C POLICY CONSIDERATIONS

Despite the impressive gains made in the last few years in terms of economic growth and development, the level of informality remains stubbornly high in Bangladesh. Moving forward, in order to ensure that future growth translates into more formal, quality jobs and improved working conditions for all, the following three strategies are put forth: (i) enhance business environments and promote investment in order to stimulate formal job creation; (ii) encourage the formalization of informal enterprises and informal jobs through poverty reduction programmes that aim to better link microfinance to microenterprises (reducing institutional barriers); and (iii) improve working conditions of those who continue to operate informally (minimum wage, workplace safety and health, and social protection).<sup>30</sup> A mix of policies that address these three objectives is likely to yield the best return in terms of not only reducing informality in the long run but also providing protection to the informal workers.

### 1 MACROECONOMIC POLICIES FOR A CONDUCTIVE BUSINESS ENVIRONMENT: CORNERSTONE OF A NATIONAL STRATEGY FOR TACKLING INFORMALITY

- *Create a business and regulatory environment that is favourable for enterprises to operate and thrive:* The ability of firms to thrive and prosper is limited by the constraints firms face related to construction permits, enforcement of private contracts, registering property and getting credit. As such, making it easier for businesses to maintain operations improves the likelihood a firm is started in the first place but equally important, remains formal. In order to enhance the business environment, there are few key things the government could consider:
  - *One-stop shop for businesses:* Entrepreneurs running micro, small, and medium enterprises (MSMEs) need help with business skills, market access for their goods and services, and potential areas of expansion

<sup>30</sup> See Chen (2004, 2006, 2008) for more.

---

and growth. For example, with the help of the ILO, Cambodia, Laos, and Sri Lanka have developed one-stop shops for providing assistance to MSMEs. These one-stop shops help enterprises identify high-potential sectors, determine constraints and opportunities for market expansion, among others. Providing business help has the effect of reducing the constraints that limit their growth, which will then facilitate their transition to formality. Besides facilitating registration, the government should also raise awareness in the country regarding “running a business”. The easier it seems for would-be entrepreneurs (removing psychological and institutional barriers), the more likely for formal enterprises to be established in the country.

- *Improve access to credit, especially during growth phase:* It is important to remove financing constraints for enterprises and make taxes less prohibitive for start-ups. The government, in cooperation with the central bank of Bangladesh, could put in place a policy of lending at a reduced rate for the first 3 years of operation. In doing so, it is also important to establish an entity that assesses the viability of the business plan and its likelihood of being profitable; in other words, government’s version of venture capital that assesses the business plan of would-be entrepreneurs. Microfinance can also be an important enabler to the formalization process (see below). For example, in the past decade, Brazil has successfully taken steps to make formalization possible by overcoming the financial barrier that it previously presented. In 1994 the government established the Programa de Geração de Emprego e Renda Rural (Programme for the Creation of Employment and Income, PROGER). This programme has been aimed at extending credit to microenterprises, small enterprises, cooperatives and production initiatives in the informal sector. The programme first targeted informal enterprises in metropolitan areas – where unemployment rates were the highest – but it was later extended to rural areas as well.
- *Favour development of certain sectors:* As the experience from emerging economies in South East Asia demonstrates, providing a tax holiday to encourage growth in sectors that are underperforming (or to promote growth in certain regions) could prove instrumental

in not only encouraging sectoral development but also stimulate the creation of formal enterprises. These “holidays” or breaks should be undertaken with a view to ensuring that firms remain formal and therefore could be given on the condition they participate in other programmes, e.g. the “one-stop shop”. One example of favouring development of selected sectors is the priority sector lending programme in India. The Reserve Bank of India (central bank) provides credit to commercial banks contingent on devoting a share of loans to enterprises in sectors. As Chapter 1 showed, there is considerable merit in diversifying export products in Bangladesh away from the RMG sector. At the same time, it is important to bear in mind that it is very difficult for policy-makers to know which sectors will be the most innovative or create the most employment opportunities. In this context, the ILO’s Sustainable Enterprise Programme could play an important role in aligning enterprise growth and the creation of productive employment and decent work with sustainable development.

## 2 LEVERAGING MICROFINANCE TO REDUCE POVERTY AND INFORMALITY

Poverty and informality are closely linked, and to achieve the longer-term goal of reducing informality, tackling poverty is imperative – an issue that will also be discussed in Chapter 4. If properly designed and implemented, microenterprises – which are usually established using microfinance loans – can not only improve formal job creation, but also create an upward cycle of employment and income generation. Going forward, there are several ways in which the microfinance can be better leveraged in Bangladesh to reduce poverty and informality, in particular:

- *Loans to microenterprises conditional on operating formally:* Loans provided to microenterprises through microfinance institutions (MFIs) could be made conditional upon operating formally. The

---

unique features of microfinance such as group lending and collective monitoring could be leveraged to ensure that enterprises are indeed operating formally. MFIs in collaboration with the government can establish a “rewards system” which basically provides favourable borrowing conditions – e.g. preferential interest rates – to firms operating formally, and this could be made conditional on the time period of operation as well.

- *Encourage creation of microenterprises in poorer regions of the country:* Because of the progress made in the last two decades, Bangladesh has achieved significant poverty reduction and has overcome regional differences in the incidence of poverty. However, there remain sharp regional variations, and parts of the country remain relatively poor. For example, between 2000 and 2005, the largest decline in the incidence of poverty occurred in Dhaka, Chittagong and Sylhet, but areas such as Barisal and Rajshahi remain poorer (see Chapter 4 for more). One of the ways to address the regional disparity in poverty is by encouraging resource mobilization for local development with the help of micro and small enterprises. Providing incentives in the form of finance and favourable tax treatment will not only encourage creation of enterprises but also the likelihood of operating formally.

### 3 IMPROVED CONDITIONS OF WORK: WAGES, OCCUPATIONAL HEALTH AND SAFETY AND SOCIAL PROTECTION

- *Strengthen the use of minimum wages:* Empirical evidence shows that the minimum wage, unlike employment protection legislation, tends to be “binding” even for firms operating informally.<sup>31</sup> As section B explained, this is mainly because of the “lighthouse effect” which essentially means that minimum-wage laws can also raise wages in the informal economy. Furthermore, informal firms that follow minimum-wage guidelines are also more likely to “formalize” in the medium to long run. Moreover, effective minimum-wage laws can play an important role in supporting workers and their living conditions. Even against the backdrop of recent

<sup>31</sup> See ILO (2011).

pledges to increase the minimum wage in the RMG sector, going forward a less ad hoc approach should be adopted and the use and effectiveness of minimum wages strengthened by:

- *Putting in place a national minimum wage and ensuring universal coverage:* Currently, Bangladesh follows a patch-work approach with 42 sectoral minimum wage schedules. Each of them consists of numerous rates for different grades and categories of workers. The multiplicity of rates does not only hamper enforcement and leaves gaps in coverage, but also undermines the role of collective bargaining in wage-setting. In order to make minimum wages more effective, Bangladesh should rationalize and simplify its approach to minimum wage setting and consider the model adopted by many other developing and emerging economies – a universal, national minimum wage that provides protection against unduly low wages for all workers. This would also create greater room for sectoral collective bargaining between trade unions and employers.
- *Regular and effective increases in the minimum wage:* Regular adjustments to minimum wages are needed to avoid sudden and ad hoc changes. Indeed, if carefully designed, minimum-wage policies can encourage domestic consumption and reduce low pay, inequality and the gender pay gap at little or no cost to employment. Increases need to balance, on the one hand, providing enough resources to workers to sustain an adequate living while being mindful, on the other hand, of economic factors such as productivity. By the very nature of these considerations, minimum-wage increases should be negotiated between social partners. In this regard, the Minimum Wage Board can play a vital role.
- *Improving occupational safety and health for all workers:* It is vitally important to enhance the working conditions of workers in informal employment. This is perhaps particularly relevant for the manufacturing sector where the vast majority of workers are informal and are often confronted with difficult working conditions. Recent efforts by the government, together with social partners, to work closely with large international enterprises to encourage local suppliers to conform to worker safety regulations is an important step forward.

---

For example, Loblaw Companies Ltd says it will include the structural integrity of buildings in audits of suppliers in the wake of the collapse of the Bangladesh factory. Measures to ensure that the entire supply chain makes efforts towards creating viable, formal and safe workplaces – in addition to those measures mentioned in Chapter 2 – will be needed. In this respect, close collaboration with international firms and local suppliers are of particular relevance.

- *Enhance and broaden social protection floor*: One of the ways to improve the working conditions of informal workers is by moving towards a universal social protection floor, which has a twin effect of addressing poverty while in the medium to long run reducing informality – which is discussed in more detail in the following chapter. In the short term, however, a number of immediate measures could be envisioned to improve coverage for informal workers including providing some form of protection to informal workers in areas such as health and safety. For instance, some developing countries have implemented schemes that provide access to health care for workers in the informal sector. For example, a mutual health scheme called UMASIDA was established in Tanzania as early as 1995 to minimize the problem of restricted access to health-care services by workers in the informal economy. UMASIDA is a community-based insurance model, where the policyholders themselves are the owners and managers of the insurance programme. For a small premium, members receive all necessary outpatient care. Care is provided at dispensaries or health centres owned by UMASIDA.<sup>32</sup> In addition, the Self Employed Women's Association (SEWA) attempts to address the welfare of Indian women who work informally by establishing initiatives to ensure health, income security and empowerment. The approach of SEWA is founded on the recognition that lack of protection in the workplace is both a cause and a consequence of job and income insecurity.

<sup>32</sup> See also McCord and Mutesasira (2000).

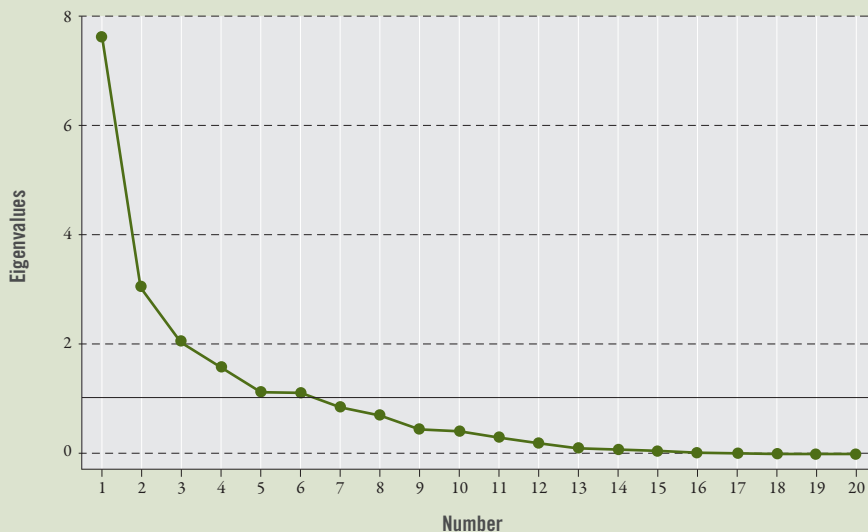
## APPENDIX A.

### DETERMINANTS OF INFORMALITY USING PRINCIPAL COMPONENT ANALYSIS

Principal component analysis (PCA) allows researchers to summarize information from a large set of variables into a reduced number of new variables commonly referred to as “components.” The variables used in this chapter are drawn from the literature on the determinants of informality. But since there is no consensus on the exact determinants of informality, 20 different variables have been used for a group of 22 developing countries, including Bangladesh. Meanwhile, in order to avoid missing values and address measurement errors, this analysis uses 5-year averages for the variables (2005–10). After conducting a PCA, the resulting components are used to group different determinants of informality and construct summary indicators (or composite indices). In this case, six different “components” were created – “components” are linear combinations of the original variables and therefore a correlated with them – which means that although the method does not provide an explicit interpretation of the factors, it allows researchers to interpret them by their correlation with the original variables.

Six “components” were chosen based on their eigenvalues – only the ones above 1 were included (Figure 3.9). Take, for example, the first component – it is highly and positively correlated with variables such as GDP per capita and literacy rate and negatively correlated with variables such as poverty and rural development. Component 2, on the other hand, is correlated mainly with unemployment variables and variables linked to public health. After conducting simple regressions of informal jobs on the six components, it can be seen that only the first component significantly explains informal jobs in this sample of 22 countries (Table 3.3).

Figure 3.9 Eigenvalues from the PCA



Source: ILS calculations.

Table 3.3 Simple regressions of informal jobs on new components from the PCA

	Informal jobs					
	1	2	3	4	5	6
component 1	-0.0483*** [0.0121]					
component 2		-0.0355 [0.0243]				
component 3			-0.0472# [0.0293]			
component 4				-0.00257 [0.0353]		
component 5					-0.017 [0.0416]	
component 6						0.0219 [0.0419]
Constant	0.564*** [0.0326]	0.564*** [0.0415]	0.564*** [0.0411]	0.564*** [0.0437]	0.564*** [0.0435]	0.564*** [0.0434]
Observations	22	22	22	22		22
R-squared	0.444	0.097	0.115	0.008		0.014

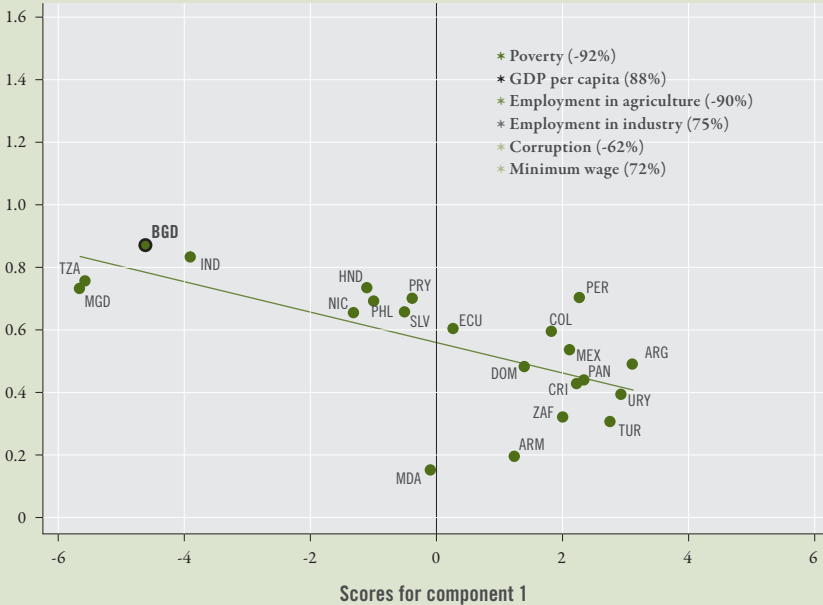
Standard errors in brackets

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1, # p<0.15



Using the first component to plot countries against the prevalence of informal jobs, it can be seen that there are clusters of countries, which include Bangladesh (BGD), India (IND), Madagascar (MDG) and Tanzania (TZA) (Figure 3.10). These countries are characterized as having high shares of informal jobs and lower values of component 1. This basically means that with respect to other countries in the sample, these countries tend to be poorer (with high levels of poverty and low GDP per capita), lower literacy rates, higher incidence of corruption, and regulatory environments that are less conducive to business development and growth. Furthermore, in these countries, agriculture tends to play an important role in employment (high share of employment in agriculture and low share in industry) and a large fraction of the population lives in rural areas. Also, these countries are characterized as having relatively low minimum wages.

Figure 3.10 Informal jobs vs. “component 1” from the PCA



Note: Percentages in parentheses refer to the correlation between the original variables and component 1 (i.e. the correlation between countries' poverty and component 1 in the analysis is -92 per cent).  
Source: ILS calculations.

---

## REFERENCES

- Asian Development Bank (ADB) 2010. *The Informal Sector Bangladesh Country Report 2010*, prepared in collaboration with Bangladesh Bureau of Statistics (BBS).
- Azuma, Y.; Grossman, H. 2002. *A theory of the informal sector*, Working Paper No. 8823 (Cambridge, NBER).
- Bosch, M.; Maloney, W.F. 2006. *Gross worker flows in the presence of informal labour markets: Evidence from Mexico, 1987–2002*, World Bank Policy Research Working Paper 3883 (Washington, DC, World Bank).
- Botero, J.C. et al. 2004. “The regulation of labour”, in *The Quarterly Journal of Economics*, Vol. 119, No. 4, pp. 1339–1382.
- Chant, S. 1991. *Women and survival in Mexican cities: Perspectives on gender, labor markets and low income households* (Manchester, Manchester University Press).
- Chen, M. 2008. “Informalisation of labour markets: Is formalisation the answer?”, in Shahra Razavi (ed.): *The gendered impacts of liberalization: Towards embedded liberalism?* (New York, Routledge Press), pp. 191–218.
- Chen, M.; Vanek, J.; Heintz, J. 2006 “Informality, gender, and poverty: A global picture”, *Economic and Political Weekly*, Vol. XLI.21 (27 May), pp. 2131–2139.
- Chen, M.; Carr, M. 2004. “Globalisation, social exclusion, and work: With special reference to informal employment and gender”, in *International Labour Review*, Vol. 143, pp. 1–2.
- Chowdhury, A. 2009a. *Microfinance as a poverty reduction tool – A critical assessment*, Working Paper No. 89 (UNDESA).
- Chowdhury, J.A. 2009b. *Microcredit, micro-enterprises, and self-employment of women: Experience from the Grameen Bank in Bangladesh*, paper presented at the FAO-IFAD-ILO Workshop on gaps, trends and current research in gender dimensions of agricultural and rural employment: differentiated pathways out of poverty (Rome).
- Dabla-Norris, E.; Feltenstein, A. 2005. “The underground economy and its macroeconomic consequences”, in *Journal of Policy Reform*, Vol. 8, pp. 153–174.

- Devicienti, F.; Groisman, F.; Poggi, A. 2010. "Are informality and poverty dynamically interrelated? Evidence from Argentina", in J.A. Bishop (ed.): *Studies in applied welfare analysis: Papers from the third ECINEQ meeting*, Research on Economic Inequality, Vol. 18 (Emerald Group Publishing), pp. 79–106.
- Dreher, A.; Schneider, F. 2006. *Corruption and the shadow economy: An empirical analysis*, IZA Discussion Papers 1936 (Bonn, Institute for the Study of Labour).
- Friedman, E. et al. 2000. "Dodging the grabbing hand: The determinants of unofficial activity in 69 countries", in *Journal of Public Economics*, Vol. 76, pp. 459–492.
- Geldstein, R. 2000. *Non-labor market coping strategies in Argentina*, unpublished manuscript (Washington, DC, LCSPG/World Bank).
- Günter, I.; Launov, A. 2006. *Competitive and segmented informal labour markets*, IZA Discussion Paper 2349 (Bonn, Institute for the Study of Labour).
- Hart, K. 1973. "Informal income opportunities and urban employment in Ghana", in *Journal of Modern African Studies*, Vol. 11, No. 1, pp. 61–89.
- Hindriks, J.; Muthoo, A.; Keen, M. 1999. "Corruption, extortion and evasion", in *Journal of Public Economics*, Vol. 74, pp. 395–430.
- ILO. 2010/11a. *World Social Security Report 2010/11. Providing coverage in times of crisis and beyond* (Geneva).
- ILO. 2010/11b. *Global Wage Report 2010/11. Wage policies in times of crisis* (Geneva).
- ILO. 2011. *Growth, employment and decent work in the least developed countries*, Report of the ILO for the Fourth UN Conference on the Least Developed Countries, 9–13 May 2011, Istanbul, Turkey.
- Islam, R.; Mujeri, M.K.; Ali, Z. 2011. *Fiscal and political space for crisis response with a focus on employment and labour market: Study of Bangladesh*, ILO Employment Sector Working Paper No. 92 (Employment Policy Department, ILO, Geneva).
- Johnson, S.; Kaufmann, D.; Zoido-Lobaton, P. 1998. "Regulatory discretion and the unofficial economy", in *American Economic Review, Papers and Proceedings*, Vol. 88, pp. 387–392.
- Jütting, J.; Parlevilet, J.; Xenogiani, T. 2008. *Informal employment re-loaded*, Working Paper No. 266 (Paris, OECD Development Centre).
- Khamis, M. 2008. *Does the minimum wage have a higher impact on the informal than on*

---

*the formal labour market— Evidence from quasi-experiments*, IZA DP No. 3911 (Bonn).

Krakowski, M. 2005. *Determinants of the informal economy: The importance of regional factors*, HWWA Discussion Paper No. 313 (Hamburg Institute of International Economics).

Loayza, N.V. 1996. “The economics of the informal sector: A simple model and some empirical evidence from Latin America”, in *Carnegie-Rochester Conference Series on Public Policy*, Vol. 45, pp. 129–162.

Maligalig, D.S., Cuevas, S.; Rosario, A. 2009. *Informal Employment in Bangladesh*, ADB Economics Working Paper Series (Bangkok, Asian Development Bank).

Maloney, W. F. 2004. “Informality revisited,” in *World Development*, Vol. 32, No. 7, pp. 1159–1178.

Maloney, W.F. 1999. “Does informality imply segmentation in urban labor markets? Evidence from sectoral transitions in Mexico”, in *The World Bank Economic Review*, Vol. 13, No. 2.

Marcouiller, D.; Young, L. 1995. “The black hole of graft: The predatory state and the informal economy”, in *American Economic Review*, Vol. 85, pp. 630–646.

Maurizio, R. 2009. *Labour informality in Latin America: Poverty and vulnerability*, paper prepared for the Special IARIW-SAIM Conference on Measuring the Informal Economy in Developing Countries Kathmandu, Nepal, 23–26 September.

McCord, M. J.; Mutesasira, L. 2000. *MicroInsurance: A case study of an example of the mutual model of microInsurance provision – UMASIDA* (Tanzania). Nairobi, Kenya: MicroSave-Africa.

Packard, T.G. 2007. *Do workers in Chile choose informal employment? A dynamic analysis of sector choice*, World Bank Policy Research Working Paper 4232 (Washington, DC, World Bank).

Perry, G.E. et al. 2007. *Informality: Exit and exclusion* (Washington, DC, World Bank).

Raihan, S. 2010. “Informal sector in Bangladesh: Implications for growth and poverty”, in *The Indian Journal of Labour Economics*, Vol. 53, No. 2.

Rei, D.; Bhattacharya, M. 2008. *The impact of institutions and policy on informal economy in developing countries: An econometric exploration*, Policy Integration Working Paper No. 84 (Geneva, ILO).

Saavedra, J.; Chong, A. 1999. "Structural reform, institutions and earnings: Evidence from the formal and informal sectors in Urban Peru", in *The Journal of Development Studies*, Vol. 35, No. 4.

Straub, S. 2005, "Informal sector: The credit market channel", in *Journal of Development Economics*, Vol. 78, No. 2, pp. 299–321.

Women in Informal Employment: Globalizing and Organizing (WIEGO). 2012. *Informality, poverty and gender: Summary of WIEGO findings*.

World Bank. 2004. "Informality revisited", in *World Development*, Vol. 32, No. 7, pp. 1159–1178.

---

## **CHAPTER 4**

### **POVERTY REDUCTION AND SOCIAL PROGRAMMES: A CRITICAL OVERVIEW**

#### **INTRODUCTION**

Bangladesh has made significant strides in terms of economic growth: the average annual GDP growth rate increased from an average of 3.2 per cent in the 1980s to 5.8 per cent in the 2000s. Furthermore, between 2000 and 2010, GDP per capita increased by 84 per cent and the share of the population living below the upper national poverty line decreased from 48.9 per cent to 31.5 per cent. According to the government, Bangladesh is on track to achieve the first millennium development goal (MDG) of eradicating extreme poverty and hunger.<sup>33</sup> In order to build on this success and achieve greater social equity, a number of challenges, including regional disparities in poverty reduction, limited access to the social safety net and sub-par delivery of programmes, need to be addressed.

This chapter begins with a critical overview in section A of the progress made by Bangladesh in terms of poverty reduction. Section B then examines the range of social programmes that have been put in place to tackle poverty, while section C provides policy considerations, underscoring the importance of addressing longer-term development needs and expanding social protection.

<sup>33</sup> The Sixth Five-Year Plan of the Bangladeshi Government (Planning Commission, 2011).

## A POVERTY REDUCTION IN BANGLADESH

### *Poverty has declined in the last two decades but it is still pervasive ...*

Bangladesh has seen a steady decline in poverty in the past three decades as the share of population living under the national poverty line fell from 56.7 per cent in 1991–92 to 48.9 per cent in 2000 and to 31.5 per cent in 2010.<sup>34</sup> The reduction in poverty is impressive, even when compared with other countries in the region, such as Cambodia, Indonesia and the Philippines (Figure 4.1, panel A). Reductions in poverty occurred across both urban and rural areas. In fact, urban poverty was reduced by half – it decreased from 42.8 per cent in 1991–92 to 21.3 per cent in 2010. The incidence of poverty in rural areas also fell considerably – from 58.8 per cent in 1991–92 to 35.2 per cent in 2010 – although most of the decline occurred between 2000 and 2010 (from 52.3 per cent to 35.2 per cent). In terms of income inequality, Bangladesh also fares better than most countries in South East Asia: the Gini coefficient for Bangladesh stood at 32.1 in 2010 – less than for Malaysia (46), Philippines (43), Thailand (40) and Viet Nam (35.6).<sup>35</sup>

And while this progress is commendable, according to the World Bank's data on the number of people living below US\$2 a day, 76 per cent of the population lives with less than US\$2 per day and has been reduced from 84 per cent in 2000. As a result, poverty is still a pervasive phenomenon, and with the highest share among the countries in the region Bangladesh compares poorly with other countries (Figure 4.1, panel B). For example, Nepal's GDP per capita is lower than that of Bangladesh, yet the percentage of the population living under US\$2 a day is considerably less at 57 per cent. Similarly, other countries such as the Philippines and Viet Nam are doing considerably better than Bangladesh – below 50 per cent live with less than US\$2 a day.

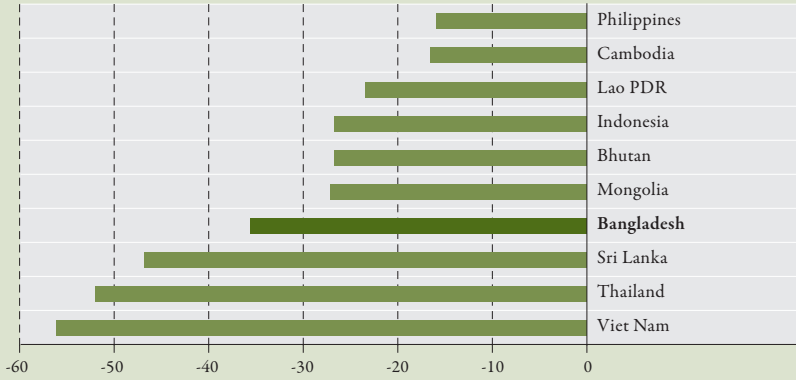
### *...and there remains considerable regional disparity.*

<sup>34</sup> The Bangladesh Bureau of Statistics provides two types of poverty lines – upper (includes food and non-food items) and lower (includes food items only). The analysis presented in this chapter mostly uses the upper poverty line for the sake of clarity.

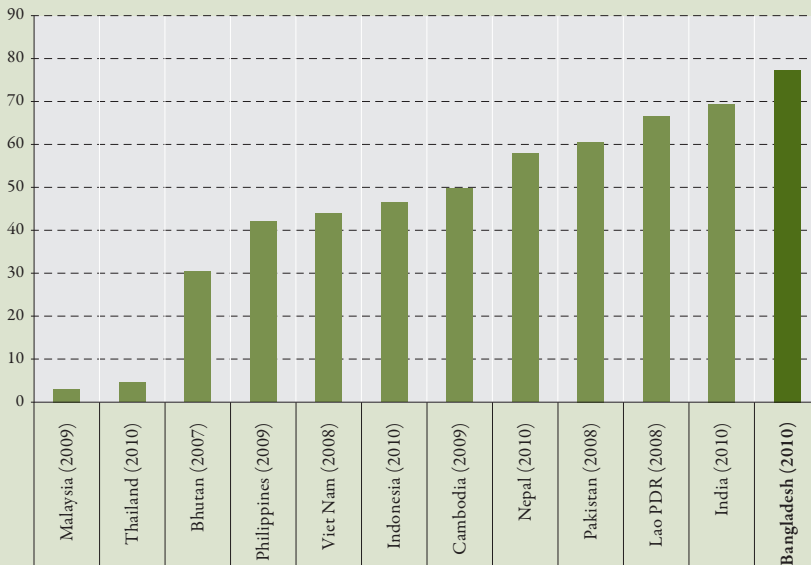
<sup>35</sup> The latest available data for the countries are: Malaysia (2009), Philippines (2009), Thailand (2009) and Viet Nam (2008).

Figure 4.1 Poverty in Bangladesh

Panel A. Share of the population living below national poverty lines  
(change between 1990s and 2000s)



Panel B. Percentage of people living under US\$2 a day

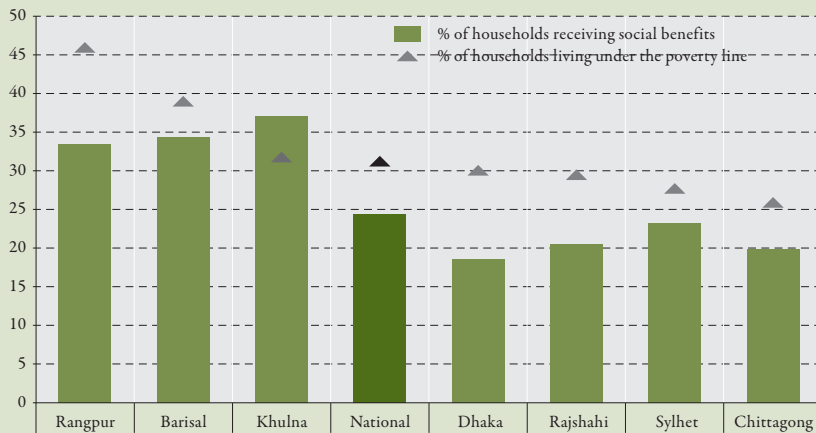


Source: IILS calculations based on data from the World Bank (WDI).



Against the backdrop of the considerable aggregate declines in poverty, there remains considerable regional variation in poverty levels (Figure 4.2). Indeed, the percentage of the population living under the national poverty line ranges from a low of 26.2 per cent in Chittagong to a high of 46.2 per cent in Rangpur.<sup>36</sup> Poverty levels are also comparably high in Barisal where close to 40 per cent live below the national poverty line. There are also noticeable differences in terms of social spending by region. For example, in Kulna where 32.1 per cent of households live below the poverty line (similar to the national average), it is the region with the highest percentage of households receiving benefits. Nationally, while 31.5 per cent of households live under the poverty line, 24.6 per cent of them receive social benefits. The purpose of the following section is to examine social spending in Bangladesh in more detail, paying special attention to protection available for poor and vulnerable groups.

**Figure 4.2 Regional distribution of poverty and social spending, 2010**  
(percentages)



Note: The poverty line refers to the upper poverty line, which includes both food and non-food items.  
Source: HIES Survey Report 2010, Bangladesh Bureau of Statistics.

<sup>36</sup> Note that after 2010, Rajshahi has been split into two regions: Rajshahi and Rangpur. The new Rajshahi is less poor than Rangpur; in fact, in 2010 Rangpur was the poorest region in Bangladesh.

---

## B SOCIAL SPENDING: OVERVIEW AND CHALLENGES

*Social spending has played an important role, but is focused on food security and disaster relief...*

Spending on social programmes to alleviate poverty and address vulnerability of the population has been an integral part of the government's strategy to combat poverty. In Bangladesh, these range of programmes fall under the Social Safety Net Programmes (SSNP) which are a set of public measures to protect those who are vulnerable to various social and economic hardships. In the 2012–13 budget, SSNP account for 2.2 per cent of GDP and 11.9 per cent of the total government budget. In the last 5 years, the spending on SSNP has fluctuated between 2.2 and 2.6 per cent as a share of GDP, and between 12 and 16 per cent as a share of the total budget. The Ministry of Social Welfare is the main conduit of the government in delivering social programmes – it delivers 17 programmes in total. Otherwise, the delivery of social programmes in Bangladesh is rather fragmented across a large set of ministries – 22 ministries by some estimates. For example, just in the case of food-based programmes, there are more than a dozen ministries implementing 30 different programmes.<sup>37</sup>

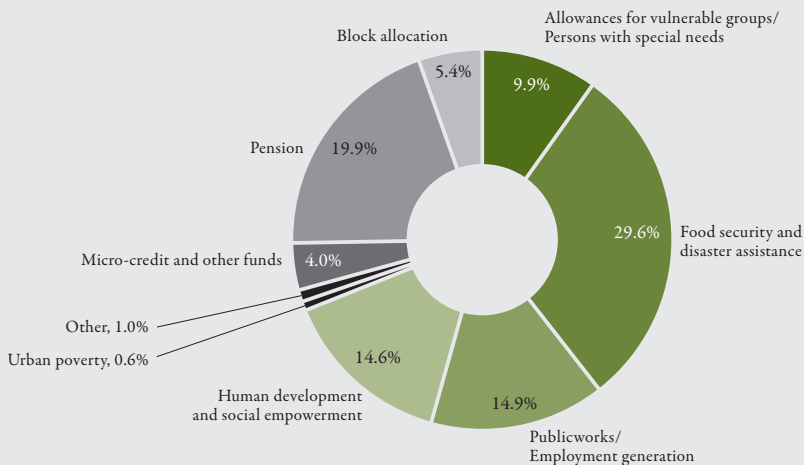
Part of the challenge is the sheer number of programmes and their cross-cutting nature. Indeed, there are approximately a total of 94 programmes listed in the 2012–13 budget for SSNP including both cash and in-kind/food programmes, with the top seven programmes constituting more than half (51 per cent) of the total budget (see Appendix A for an overview of some of the main social programmes in Bangladesh). The programmes are divided between empowerment (34 per cent of 2012–13 budget) and protection programmes (66 per cent in 2012–13 budget).<sup>38</sup> The two types of spending that are outside of this classification are block allocations (discretion of the party in power) and pensions (for government employees).

<sup>37</sup> Sharif (2009).

<sup>38</sup> In the last 5 years, the share of spending going towards empowerment increased from 24 per cent in 2008–09 to 34 per cent in 2012–13, while the share of spending going towards protection decreased from 76 per cent to 66 per cent.

Beyond the broad categories, social spending can be grouped into the following nine detailed categories: (i) food security and disaster assistance (29.6 per cent, 19 programmes); (ii) pension (19.9 per cent); (iii) public works and employment generation (14.9 per cent, 14 programmes); (iv) human development and social empowerment (14.6 per cent, 23 programmes); (v) allowances for vulnerable groups and persons with special needs (9.9 per cent, 17 programmes); (vi) block allocation (5.4 per cent, 2 programmes); (vii) micro-credit and other funds (4 per cent, 8 programmes); (viii) urban poverty (0.6 per cent, 3 programmes); and (ix) others (1 per cent, 10 programmes) (Figure 4.3).

Figure 4.3 Social spending by types of programmes (% of total budget, 2012–13)



Source: Ministry of Finance of Bangladesh, Social Safety Net Programmes (SSNP) budget (from 2008–09 to 2012–13). The classification is based on Rahman and Choudhury (2012).

---

Historically, the focus of SSNPs in Bangladesh has been on food security and disaster relief, and despite branching into various other programmes in recent years, the government continues to spend a large chunk of the SSNP budget on these programmes – close to 30 per cent according to the 2012–13 budget. Bangladesh sits on the Ganges Delta and about three-quarters of the country is less than 10 metres above sea level. In any given year, about 20 per cent of the country is flooded, and during severe floods like that in 1998, 75 per cent of the country gets flooded. The economic damage caused by these floods can be quite severe. For example, the 2004 floods caused damage in the order of 3.9 per cent of GDP, mostly in the form of lost assets (housing, roads, bridges, crops, fisheries and livestock).<sup>39</sup> Floods tend to affect all households, but have a particularly devastating effect on the livelihoods of poor people. They suffer from a huge negative income shock and are forced into debt to make ends meet, and every year hundreds of thousands get displaced from their homes. Several disaster relief programmes that are in place – particularly, Vulnerable Group Feeding (VGF) – play an important role in mitigating the negative income shock on poor households.

*...and the government is also making efforts to address long-term development needs.*

The Sixth Five Year Plan<sup>40</sup> includes social policies to address worsening inequality between rural and urban areas and provisions for strengthening social protection. The aim is to bring down national poverty rates to 15 per cent by the year 2021 and to reduce inequality in terms of access to human and physical capital. Furthermore, the government's plan aims to ensure better access to irrigated water, fertilizer, electricity, roads and finance. One of the objectives of the plan is to increase collaboration with non-governmental organizations to improve the delivery of health, education and financial services in Bangladesh. In order to address the needs of vulnerable population, the allocations toward social protection and safety nets have been further increased for the fiscal year 2012–13. More specifically, the allocation and coverage of the major programmes – Vulnerable Group

<sup>39</sup> ADB (2005).

<sup>40</sup> Planning Commission (2011).

Development (VGD), Vulnerable Group Feeding (VGF), Gratuitous Relief (GR) and Food for Work (FFW) – have all been increased.

Meanwhile, the government is trying to move away from food transfer programmes to cash transfer programmes. For instance, the Food for Education (FFE) programme is being slowly phased out and will be replaced by the Cash for Education programme. Similarly, Food for Work is gradually being phased out in favour of the Cash for Work programme. The rationale for using cash transfers is that the leakages are considerably less than those from food transfer programmes.<sup>41</sup> Furthermore, the cost of delivering cash is cheaper than the cost of delivering food to the beneficiaries. It has been estimated that the cost of delivering 1.0 BDT (\$0.013) worth of food on average is 0.2 BDT, while the cost of delivering 1.0 BDT in cash is virtually zero. As such, the portfolio of SSNPs is shifting more towards cash transfers in the areas of education, health, employment creation and poverty alleviation.

*However overall social protection coverage remains low ...*

The breadth of social protection coverage remains relatively low in Bangladesh compared with countries such as India, Indonesia, Sri Lanka and Viet Nam (Figure 4.4, panel A). Moreover, among the poorest people in Bangladesh, less than 40 per cent are covered by social assistance (Figure 4.4, panel B). Furthermore, urban poor tend to be left out of the social assistance completely – a very small fraction of urban poor are beneficiaries of social programmes. In fact, a large fraction of social assistance goes to non-poor households. For example, close to 10 per cent of the social assistance spending goes to the richest quintile, while the top two quintiles receive 25 per cent of all social assistance in Bangladesh (Figure 4.5). This is particularly the case with the generous food subsidies, for which the beneficiaries are not necessarily poor.

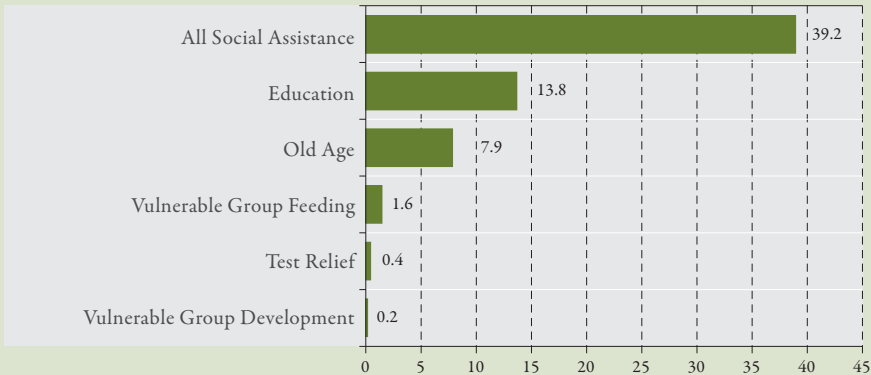
*...especially for pensions,  
a challenge that is likely to increase in the coming years.*

<sup>41</sup> World Bank (2006).

Figure 4.4 Breadth of social protection in Bangladesh

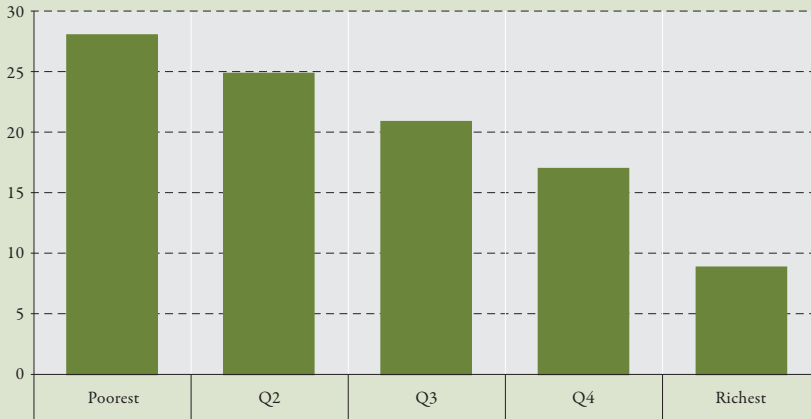


Panel B. Share of the poorest quintile covered by Social Safety Net Programmes in Bangladesh, 2010 (percentages)



Source: Panel A is based on the Revised Social Protection Index: Methodology and Handbook (ADB, 2011). Panel B is based on the Bangladesh Bureau of Statistics Data and the World Bank.

**Figure 4.5 Distribution of social assistance coverage across expenditure quintiles**  
(% of total assistance)

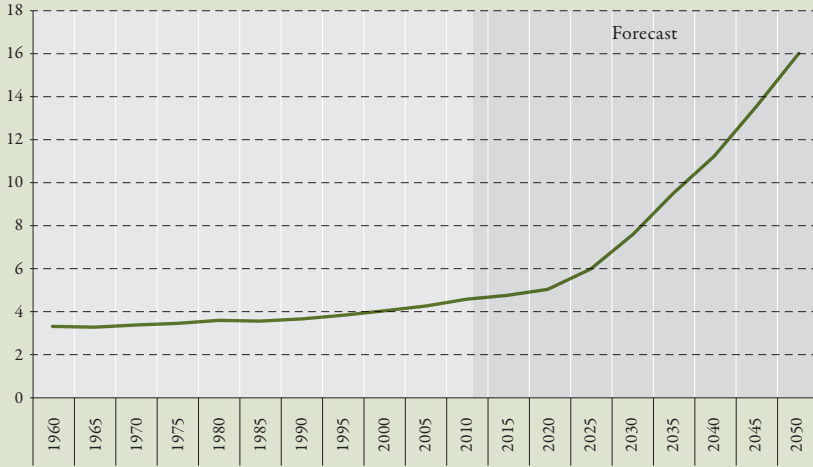


Source: Bangladesh Bureau of Statistics and the World Bank.

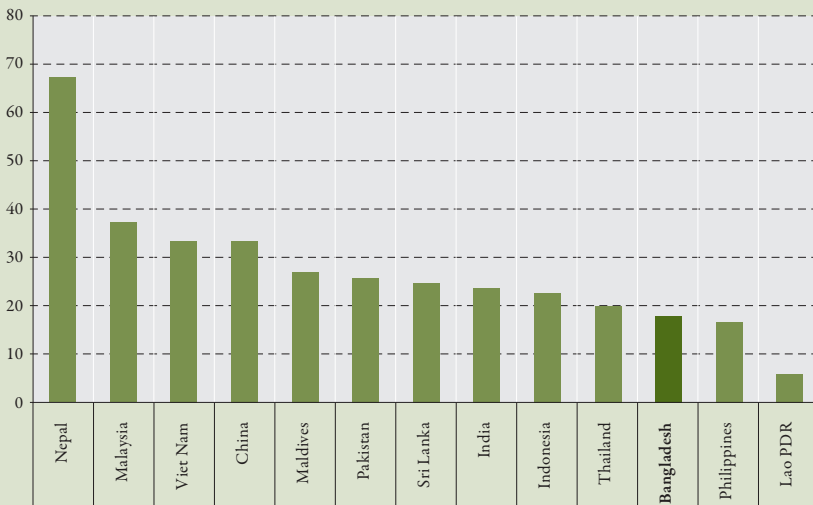
Bangladesh, like many other developing and emerging economies, is facing the prospect of an ageing population in the next two decades. In fact, the share of population aged 65 and above is projected to increase from around 5 per cent in 2010 to close to 10 per cent by 2035 and 16 per cent by 2050 (Figure 4.6, panel A). Providing adequate care for a growing share of the elderly population is going to present an enormous challenge in terms of social spending, particularly pensions. Currently, despite the fact that the country spends 20 per cent of its social expenditures on pensions (going mostly towards government officials), only 17.9 per cent of the population above the retirement age receive any kind of pension (Figure 4.6, panel B). Its Old Age Allowance programme – cash transfer worth about 300 BDT a month per beneficiary, payable every 3 months – has proven to be successful, but it needs to be expanded to reach more households and individuals (see Appendix A for an overview of the programme). Moreover, most other countries in the region – e.g. India, Nepal, Pakistan, Sri Lanka and Viet Nam – have larger pension coverage than Bangladesh.

Figure 4.6 Ageing population and pension coverage

Panel A. Projected share of population over the age of 65 (percentages)



Panel B. Share of population above legal retirement age in receipt of a pension (percentages)



Source: UN Population and ILO Social Security Report.



## C POLICY CONSIDERATIONS

Despite significant gains in reducing the share of the population living below the national poverty line, the gains have been uneven across regions, and Bangladesh still remains one of the poorest countries in the region by international standards. Moreover, overall coverage remains low, with particular acute challenges for the poorest groups, notably those above age 65 – a cohort whose size is expected to nearly double in the next two decades. Going forward, more efforts are needed to improve the effectiveness of the existing social programmes, while laying the groundwork for improved overall coverage and broader development needs.

### 1 IMPROVING EFFECTIVENESS AND COVERAGE

The joint UN initiative for a social protection floor led by the ILO and the WHO calls for investments in developing productive capacities of the population and enhancing general social well-being for poverty reduction and development. This new initiative recognizes that having a social protection floor contributes to the formalization of employment by reducing vulnerability and poverty, and boosting equitable growth (ILO, 2011). As section B showed, Bangladesh has put in place several programmes and measures aimed at providing basic social protection to its workers.<sup>42</sup> Despite the range of programmes and expenditures (in excess of 2 per cent GDP), the country still lacks a comprehensive social security system. Moving forward, Bangladesh can build upon the existing suite of programmes to improve effectiveness and coverage by:

- *Working towards a basic social protection floor, including universal social pension:* Many least-developed countries (LDCs) embarked on national programmes to extend social protection coverage as part of their development agenda, and this has had a measurable impact on income and poverty (ILO, 2011). For example, Botswana, Cape Verde and the Maldives, which adopted the policy of gradual extension of social security coverage, graduated from LDC status to middle-income countries, with

<sup>42</sup> Islam et al. (2011).

---

a lower share of informal employment out of total employment. There are several other examples of innovative social assistance programmes that have proven to be successful in enhancing coverage: for example, *Bolsa Familia* in Brazil, *Oportunidades* in Mexico, and the social grant system of South Africa.<sup>43</sup> Similarly, establishing a universal social pension, as Nepal has done, is an also effective way of extending social protection and addressing the urgent need to provide assistance to the most vulnerable. The Nepali scheme provides allowances to people aged 70 years and above and to poor widows aged 60 years and above. It was estimated that approximately 76 per cent of eligible older persons received allowances in the year 2006–07. The scheme in 2006–07 represented 0.23 per cent of Nepal’s GDP. The impact of this scheme has been the most visible on people living in extreme poverty, where the monthly allowance has made an enormous difference.

- *Improving coverage against work-related accidents:* This type of coverage is generally limited to the formal economy, but a large share of manufacturing workers in Bangladesh are employed in the informal economy. A contributory employment injury scheme could be introduced where the rates vary depending on the level of risk faced by workers. For example, this can be piloted first for the RMG sector, where it could be made mandatory for all employers to have such a scheme. There are several examples of such programmes in Latin America and Central Europe, and the ILO has the technical capacity to assist Bangladesh in replicating such schemes. However, such schemes should be viewed as a complement to efforts to upgrade the current state of industrial infrastructure and improving occupational health and safety (see Chapters 2 and 3).<sup>44</sup>
- *Enhancing delivery of existing social programmes:* More effective use of resources could be envisaged by reducing the fragmented nature with which social programmes are delivered. And while many programmes are cross-cutting in nature, organizing social assistance, for instance, according to themes based on the portfolio of different ministries could improve the effectiveness of existing programmes. Indeed, with more than 20 ministries involved in the delivery of nearly 100 programmes, there is an argument to scale back on the number schemes into a smaller number

<sup>43</sup> TFor more, see ILO Social Security Report (2011).

<sup>44</sup> Hossain et al. (2010).

of far-reaching programmes. One way to address this would be to create a central coordinating authority, coupled with stronger supervision and monitoring at local levels. This could help improve awareness and delivery and thus improve the overall effectiveness of social protection. For example, in Brazil all the poverty reduction schemes – of which there are only 14 – are coordinated by the office of the President. Moreover, any rationalization of schemes should be accompanied by improvements to the system of evaluation.

- *Reducing the access of non-poor to social assistance:* In order to enhance the impact and efficacy of programmes to ensure they reach those most in need, programmes should be means-tested. Currently, there is too much discretionary power over how beneficiary cards are distributed. Indeed, card eligibility should be a function of means testing, and an independent evaluation unit housed under the Ministry of Social Welfare should regularly monitor the process of card distribution to ensure that the beneficiaries match the criteria required for the programmes. As mentioned above, the ability of policy-makers to improve the effectiveness of existing (and new) programmes very much depends on a proper monitoring and evaluation framework – supported by adequate resources.

## 2 SOCIAL PROTECTION THROUGH EMPLOYMENT GENERATION

Employment generation is a key channel for poverty reduction and social development, and for that, Bangladesh needs to place greater emphasis on addressing longer-term development needs. In particular, the employment-generating programmes (Food for Work, Rural Development, Employment Guarantees) that the government has put in place to enhance the employability of poor households can be leveraged further:

- *Improve oversight and management of Food for Work (FFW) programme:* The FFW programme has been successful at creating seasonal employment benefiting 4 million people each year.<sup>45</sup> While the programme is gradually being phased towards a “Cash for Work” programme, it still accounts for 8 per cent of the 2012-13 SSNP

<sup>45</sup> See Khuda (2011) for more.

---

budget – the second largest programme in dollar value. As such, the programme could still benefit from a few enhancements while still in operation, that – if implemented – should also help inform the design of the new Cash for Work programme. In particular, better administration and supervision of the projects is merited, notably in terms of oversight regarding the completion of tasks and the quality of the work being undertaken. More generally, a rigorous mechanism to assess the projects and their impacts would help improve outcomes.

- *Match employment programmes with development needs at the macro and micro level:* Both the Rural Development (RD) programme and Employment Generation (EG) programme are not adequately aligned with the commercial and business interests in the region where the programmes are operating. In addition, in many cases, individuals benefiting from the programmes are often unintended beneficiaries due to corruption. Moving forward, the government needs to ensure that: (i) programmes better match development needs in the region; and (ii) they are targeted to those workers most in need. There may even be efficiencies gained in merging these two programmes together. More generally, the overall management and evaluation of the programme needs to improve, perhaps by establishing an independent oversight committee, including social partners, to select and design the nature projects undertaken. In fact, management and proper oversight of India's Employment Guarantee Scheme in the state of Rajasthan has proven to be an important determinant of its success (as is including social partners and community leaders in the design phase of a project). Including all relevant social partners also tends to reduce the likelihood of corruption and mismanagement.

## APPENDIX A.

### OVERVIEW OF MAJOR SOCIAL PROGRAMMES IN BANGLADESH

Among the top programmes are: Open Market Sales (10 per cent), Food for Work (8 per cent), Vulnerable Group Feeding (8 per cent), Employment Generation Programme for the Ultra-Poor (7 per cent), Test Relief Food (7 per cent), Stipend for Primary Students (6 per cent) and Old Age Allowance (5 per cent) (Table 4.1). In particular:

*Open Market Sales (OMS):* This is one of the largest food subsidy programmes, put in place by the Bangladeshi government in the 1980s in order to ensure food security. Under this scheme, the government buys and sells food (rice, wheat, etc.) in order to maintain constant supply while stabilizing prices. During low-demand periods, the government buys up food and stores it to be made available during high-demand periods. Generally speaking, the government incurs a cost of around 10 per cent of the total social safety net spending to support OMS. There is also a seasonal component to OMS; e.g. during Ramadan, the government sells crops at lower prices to keep prices from going up, which in turn maintains food security during the festival period, particularly for the poorest and the most vulnerable population.

*Food for Work (FFW):* The FFW programme was launched in 1975 to respond to the 1974 famine – the poor facing food insecurity were provided relief using food donated by other countries. The initiative then evolved into a development-oriented programme, where various projects were implemented to maintain and develop rural infrastructure. The objectives are broadly to: (i) improve agriculture sector performance by constructing and maintaining production and marketing infrastructures; (ii) reduce loss of human lives due to natural disasters by implementing protective measures; and (iii) generate productive employment for the rural poor during slack seasons. The budget and coverage of FFW package indicates that this is one of the more important social programs being undertaken by the government of Bangladesh, aiming to engage around 1 million participants

---

a year. Participation in the FFW has been described as being “self-selecting” – anyone who is poor, willing and available to do work for food wages. Even though the objective is to gradually shift towards cash for work, the food for work component remains large (there was allocation in the 2012–13 budget of the government).

*Vulnerable Group Feeding (VGF):* The VGF programme is a social safety net programme that was launched in the 1970s as an emergency aid to natural disasters. The programme provides food and other basic needs to most vulnerable and marginal group during and in the aftermath of a disaster, when economic livelihood is severely hampered. Those eligible for participation in this programme include: daily labourers with low or irregular income, the landless, people with disabilities, and poor households affected by natural disasters. As with other social programmes, the government distributes “cards” to eligible participants; the committee that distributes the cards comprises government employees and political activists.

*Test Relief (TR) Food:* The TR programme was implemented in 1975 by the Ministry of Food and Disaster Management (MOFDM) to combat chronic unemployment and hardships during lean periods and natural disasters. The programme targets employment for the poor during seasonal calamities and develops and maintains the rural infrastructure. As such, the programme aims to create employment opportunities through implementation of small rehabilitation projects, including expansion of educational and other public welfare institutions. It provides about 8 kilograms of rice/wheat for each person for every day of work. The programme envisions the two-pronged scope through this food-assisted work – food security is ensured for the economically vulnerable people by providing them with some means of livelihood. The TR programme more specifically addresses the seasonal *monga* in Bangladesh, characterized by a scarcity of employment and thus incomes, leading to a lack of access to food among rural poor and landless families. This is a common phenomenon in north western Bangladesh, particularly after the planting but before the *aman* rice harvest in September to November.

*Stipend for Primary Students:* This programme was introduced in 1999 in place of the Food for Education project, to increase primary enrolment rates, as well as reduce dropout rates. The stipend scheme was introduced as an incentive programme to encourage poor families to send their children to school instead of involving them in livelihood activities. To that end, financial support is provided to poor families that send their children to schools. The target group extends to rural areas of each sub-district in the country and covers primary school students who live under the lower poverty line (extreme poverty). The amount of stipend per student of a family is 100 BDT per month and 125 BDT for another student from the same family.

*Old Age Allowances:* The cash transfer is worth about 300 BDT a month per beneficiary and is managed by the Ministry of Social Welfare. The cash is payable every 3 months. It is targeted everywhere except the metropolitan areas of Bangladesh. This programme is one of the largest social programmes in Bangladesh, targeting about 2.5 million elderly households a year. Priority beneficiaries are identified on the basis of the physical and mental handicap, along with those who are freedom fighters, landless, widowed, divorced, abandoned by family, and those who have no savings after spending on food. The selection process entails applying through newspapers or other sources of public information. The candidates then apply through the Upazilla Social Services, which are the social service branches of the sub-districts within the 64 districts.

*Vulnerable Group Development (VGD):* The VGD programme was conceived to be a targeted food aid programme aimed at improving the lives of the poorest and vulnerable women of rural Bangladesh. The budget is estimated to be about 807 crore<sup>46</sup> BDT (2012–13 budget), and the programme targets around 750,000 vulnerable women annually. The beneficiaries are on the programme for 1½ years, during which they receive 30 kilograms of wheat or a combination of wheat and rice every month. Furthermore, the women receive training and cash savings, which are deposited in a bank – the women can access the savings at the end of the programme participation. As such, it motivates women to build up their savings, and

<sup>46</sup> 1 crore = 10 million.

provides some scope to obtain credit previously unattainable. The number of beneficiaries allocated to each of the 461 Upazillas in Bangladesh is determined according to the food security and vulnerability map prepared in association with the Planning Commission.

**Table 4.1 Top 19 programmes constituting 80 per cent of the total social spending**

Programme	Budget (2012-13)		
	(BDT in crore)	Share	Cumulative
1 Open Market Sales (OMS)	1'755	10%	10%
2 Food for Work (FFW)	1'439	8%	19%
3 Vulnerable Group Feeding (VGF)	1'352	8%	27%
4 Employment Generation Programme for the Ultra Poor	1'200	7%	34%
5 Test Relief (TR) Food	1'163	7%	41%
6 Stipend for Primary Students	949	6%	46%
7 Old Age Allowance	891	5%	51%
8 Vulnerable Group Development (VGD)	807	5%	56%
9 Stipend and Access Increase for Secondary and Higher Secondary Level Students (including Secondary Education Stipend Project)	565	3%	60%
10 School Feeding Programme	522	3%	63%
11 One Household One Farm	470	3%	65%
12 Fund for Climate Change	400	2%	68%
13 Honorarium for Insolvent Freedom Fighters	360	2%	70%
14 Allowances for the Widow, Deserted and Destitute Women	331	2%	72%
15 Revitalisation of Community Health Care Initiative in Bangladesh	325	2%	74%
16 Gratuitous Relief (GR)	275	2%	75%
17 Rural Employment and Rural Maintenance Programme	268	2%	77%
18 Food Assistance in CTG & Hill Tracts Area	237	1%	78%
19 National Service	228	1%	80%
<b>Top 19</b>	<b>13'537</b>	<b>80%</b>	
<b>Total SSNP budget allocation (94 programmes)</b>	<b>16'994</b>		

Source: Ministry of Finance of Bangladesh, Social Safety Net Programmes (SSNP) budget (from 2008–09 to 2012–13).



## REFERENCES

- Ahmed, S.S. 2007. *Social safety nets in Bangladesh*, background paper for Bangladesh Poverty Assessment (Washington, DC, World Bank).
- Asian Development Bank (ADB). 2005. “ADB Approves \$180 Million Loan for Emergency Flood Damage Rehabilitation in Bangladesh,” News and Events, ADB (Manila).
- Bangladesh Institute of Development Studies (BIDS) 2003. *Impact evaluation of social safety nets initiatives, final report*.
- Hossain, J.; Ahmed, M.; Akter, A. 2010. *Bangladesh labour law: Reform directions* (Dhaka, Bangladesh Institute of Labour Studies (BILS)).
- International Monetary Fund (IMF). 2011. *Bangladesh: Staff report for the 2011 Article IV Consultation – Informational Annex* (Washington, DC).
- International Labour Organization (ILO). 2011. *World Social Security Report 2010/11: “Providing coverage in times of crisis and beyond”* (Geneva).
- Islam, R.; Mujeri, M.K.; Ali, Z. 2011. *Fiscal and political space for crisis and response with a focus on employment and labour market: Study of Bangladesh*, ILO Employment Sector Working Paper 92 (Geneva, ILO).
- Khuda, B.-e. 2011. “Social safety net programmes in Bangladesh: A review”, in *Bangladesh Development Studies*, Vol. XXXIV, No. 2, pp. 87–108.
- Ministry of Finance, Government of Bangladesh, Budget Speech 2012–13. *A chronicle of last three years: Building the future*.
- Morshed, K.A.M. 2009. *Social safety net programmes in Bangladesh* (Dhaka, United Nations Development Programme).
- Ninno, C.D. 2001. *Improving the efficiency of targeted food programs in Bangladesh: An investigation of the VGD and RD programs* (Washington, DC, International Food Policy Research Institute (IFPRI)).
- Planning Commission 2011. *Ministry of Planning, Sixth Five Year Plan, FY 2011–FY 2015: Accelerating growth and reducing poverty*.

---

Rahman, H.Z.; Choudhury, L.A. 2012. *Social safety nets in Bangladesh. Volume 2 - Ground realities and policy challenges: Process, coverage, outcomes, priorities* (Dhaka, Power and Participation Research Centre and United Nations Development Programme).

Rahman, H.Z.; Choudhury, L.A.; Shakhawa Ali, K. 2011. *Social safety nets in Bangladesh. Volume 1* (Dhaka, Power and Participation Research Centre and United Nations Development Programme).

Sharif, I.A. 2009. *Building a targeting system for Bangladesh based on proxy means testing*, World Bank Social Protection Discussion Paper Series No. 0914 (Dhaka, World Bank).

World Bank 2006. *Social safety nets in Bangladesh: An assessment*, World Bank Bangladesh Development Series Paper No. 9 (Dhaka, World Bank).

## CHAPTER 5

### MIGRANT LABOUR ABROAD: FUELLING THE BANGLADESHI ECONOMY

#### INTRODUCTION

In light of the weak formal job creation in Bangladesh, it is not surprising that outward migration, notably among young Bangladeshis, has grown in importance as individuals seek to improve their well-being. In fact, more than one-third of Bangladeshi youth want to move permanently to another country. The trend increase in migration abroad has had important implications for development with remittances from migrant workers constituting 10.8 per cent of GDP in 2011. This has had considerable positive impacts at the household level in terms of poverty reduction but also entails considerable linkages with national savings and development at the macro level. However, as the experience of the crisis has dictated, many of these migrant workers are in precarious employment situations – raising concerns about their worker rights abroad but also in terms of the challenges they face when obliged to return. Indeed, the recent case of Bangladeshi migrants fleeing Libya following the revolution is a testimony to the problem of reintegrating low-skilled migrants back into the labour market.

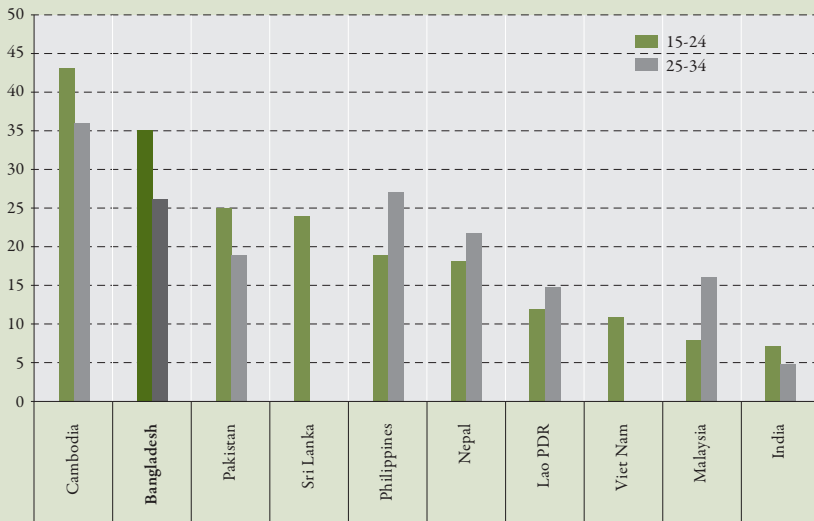
With that in mind, the purpose of this chapter is to investigate how to better leverage migration and remittances for development – at the micro and macro level, drawing on where relevant international best practices. In particular, section A provides an overview of migration patterns including an assessment of the stock and flows of international migrants, their skill composition and relative labour market performance. Section B looks at the inflow of remittances and its utilization, focusing on the evidence with respect to their development impact at the household level as well as the effect on savings and investment patterns at the national level. Finally, section C concludes by drawing policy lessons from other developing and emerging countries that have been more successful at utilizing remittances and managing the overall migration process for achieving development goals.

## A MIGRATION PATTERNS: TRENDS AND COMPOSITION

### *Bangladeshi youth want to move permanently to another country ...*

The intention to migrate among Bangladeshi youth is the strongest compared with other countries in South Asia and most countries in South East Asia (Figure 5.1). Based on a survey conducted in the region, among 25–34-year-olds, 25 per cent of Bangladeshis want to move abroad, rising to 35 per cent among 15–24-year-olds.<sup>47</sup> This is considerably higher compared with countries such as India, Laos, Malaysia and Viet Nam – in the cases of India and Viet Nam, only 7 and 11 per cent of 15–24-year-olds respectively want to move permanently abroad. Cambodia is the only country in the region that shows greater willingness to migrate permanently to another country.

**Figure 5.1 Young people's intention to migrate permanently to another country, 2011**  
(percentages)

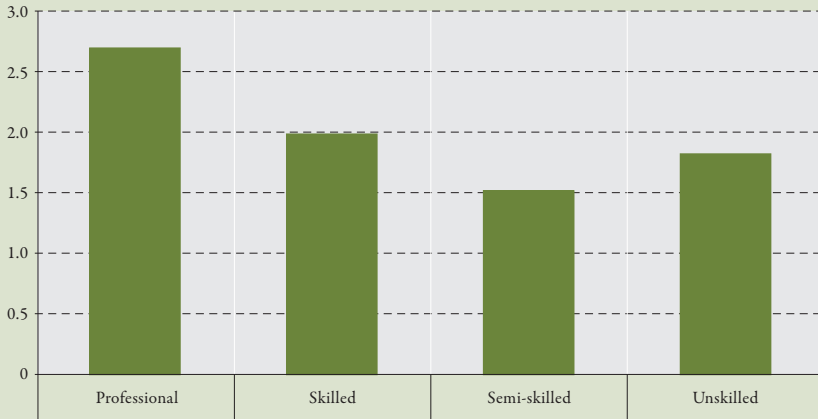


Note: Survey question asked, "Ideally, if you had the opportunity, would you like to move PERMANENTLY to another country, or would you prefer to continue living in this country?" The figure includes the percentage of respondents that answered "permanently to another country."

Source: Gallup World Poll, 2012.

<sup>47</sup> Between 2008 and 2011, the percentage of 15–24-year-olds wanting to move permanently abroad hovered between 35 and 40 per cent.

Figure 5.2 Ratio of monthly wage overseas to monthly wage at home, by class of worker, 2010



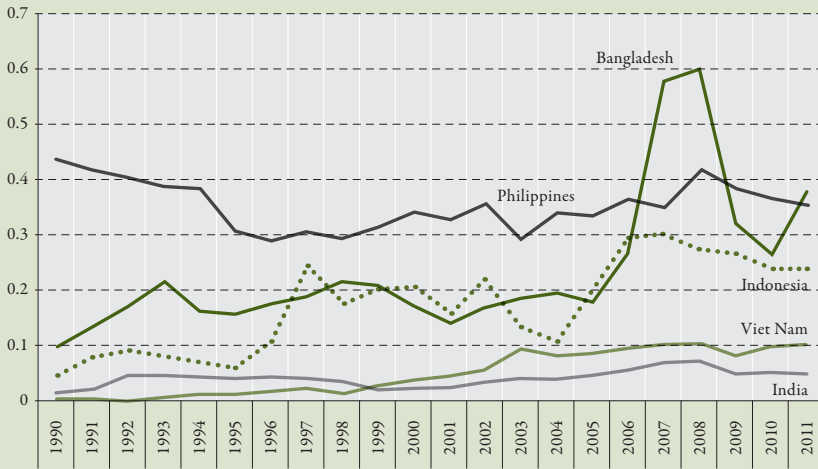
Note: The categories are mutually exclusive and average earnings abroad are based on average wages of migrant workers in the Middle East and North Africa.  
 Source: ILS calculations based on Bureau of Labour Statistics Bangladesh; classification of workers based on Ray, Sinha and Chaudhuri, 2007.

*...driven in part by the prospect of higher earnings.*

As Chapter 1 highlighted, most new entrants to the workforce earn their livelihood in the informal sector. In this regard, the opportunity to migrate represents the opportunity for youth to improve one’s labour market situation.<sup>48</sup> Not surprisingly, one of the major pull factors for Bangladeshi migrant workers is the prospect of higher earnings in destination countries. For example, workers in professional categories earn close to three times more per month abroad than they would in Bangladesh – US\$868 instead of \$320 (Figure 5.2).<sup>49</sup> Similarly, among skilled workers, earnings overseas are double what they are in Bangladesh – \$426 per month instead of \$215 per month. Meanwhile, in the semi-skilled category the difference in wages is not as severe – \$261 abroad instead of \$173 at home. Finally, in the unskilled category, earnings abroad are close to double – \$160 compared to \$89.

<sup>48</sup> There are multiple motivations, and often mixed reasons explaining an individual’s decision to migrate.  
<sup>49</sup> Average earnings abroad are estimated based on Bangladeshi migrants working in the Middle East and North Africa (see figure 5.2)

**Figure 5.3 Annual outflow of migrants as a share of population in selected countries**  
(percentages)



Source: IILS based on the Bureau of Manpower, Employment & Training (BMET), Dhaka, Bangladesh and the World Bank, Washington DC.

*It is thus not surprising that the annual flow of migrants has increased significantly in recent years...*

As a result, the annual outflow of migrants has increased significantly in recent years. For instance, the annual flow of Bangladeshis in search of employment overseas has increased four-fold – from around 248,000 in 1999–2000 to 981,000 in 2007–08.<sup>50</sup> Outflows accelerated in 2005–06, driven mainly by the labour demand from countries in the Middle East, but since the onset of the financial and economic crisis, the annual flow of workers abroad declined to 427,000 in 2009–10. Taking into account the population growth, the annual outflow of Bangladeshi migrants as a share of population rose from an average of 0.2 per cent between 1990 and 2005 to 0.6 per cent in 2008 (Figure 5.3). It fell significantly in 2009 but has since begun to rise again, reaching close to 0.4 per cent in 2011. This remains above other countries in the region, even in comparison with the Philippines where there has been a steady outflow of workers for the last two decades, ranging between 0.3 and 0.4 per cent of the population. In the case of Indonesia, the outflow as a percentage of the population increased

<sup>50</sup> The average duration of stay for Bangladeshi migrants working in the Middle East is 6 years, and it varies between 2 and 15 years.

from 0.05 in 1990 to 0.3 in 2006, but in 2011 stood closer to 0.2 and is trending downwards. For other countries such as Viet Nam and India, the rate is at 0.1 or below.

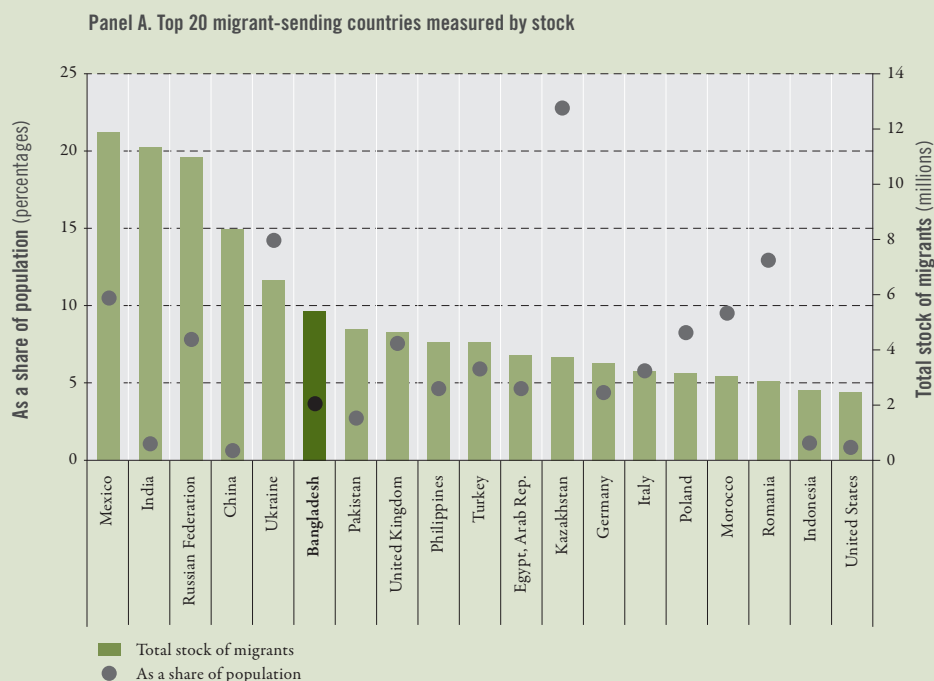
*...especially to the Middle East for low-skilled jobs ...*

In total, as of 2010, approximately 5.4 million Bangladeshis lived abroad, which is the sixth largest diaspora in the world, after Mexico, India, Russian Federation and China (Figure 5.4, panel A).<sup>51</sup> According to the World Bank (collected through the Indian government surveys), the largest share (more than two-thirds) of Bangladeshi migrants were in India (Figure 5.4, panel B). However, in the last 30 years this share has declined from over 90 per cent (in 1980) to just under two-thirds in 2010 which has been met by a similar increase in the share of Bangladeshis migrating to the Middle Eastern countries – namely, Kuwait, Oman, Saudi Arabia and the United Arab Emirates – increasing from 3.4 per cent in 1980 to 18.3 per cent in 2010.

In fact, recent outflow data confirm the increased prominence of the Middle East in terms of destination countries (Figure 5.5, panel A). Yet, there have been some notable shifts in the composition of destination within the Middle East over recent years. For example, in 2000, 65 per cent of migrants went to Saudi Arabia, but this share dropped to 2 per cent in 2010 (Figure 5.5, panel B). Meanwhile, in 2000, 15 per cent of migrants went to the United Arab Emirates (UAE), but this number jumped to 56 per cent in 2010. While the nature of jobs taken by Bangladeshi migrants in Saudi Arabia and the UAE may be largely similar, these large swings create considerable difficulty in managing out migration, especially in securing that workers enjoy minimum labour rights and standards (see section D). Besides the Middle East, there has been a significant increase in the share of migrants going to other countries, which mostly include developed economies – in 2000, 2 per cent of migrants went to other countries, while in 2010 this had increased to 21 per cent.

<sup>51</sup> The stock figure was calculated by adding up the number of Bangladeshis in all destination countries from the World Bank's Global Bilateral Migration database (1960–2000) and Bilateral Estimate updates of Migrant Stocks in 2010.

Figure 5.4 Stock of migrants living outside their home country



Panel B. Stock of Bangladeshi migrants by country of destination, 1980–2010

	1980	1990	2000	2010
India	92.2%	83.9%	76.0%	66.5%
Saudi Arabia	2.6%	6.7%	7.3%	9.0%
United Kingdom	1.0%	2.1%	3.3%	4.2%
Kuwait	0.0%	0.7%	0.6%	4.2%
Oman	0.5%	1.4%	2.1%	3.0%
United States	0.1%	0.5%	1.9%	3.0%
Malaysia	0.3%	0.7%	1.6%	2.5%
United Arab Emirates	0.4%	0.7%	1.2%	2.0%
Other countries	3.0%	3.4%	6.1%	5.6%

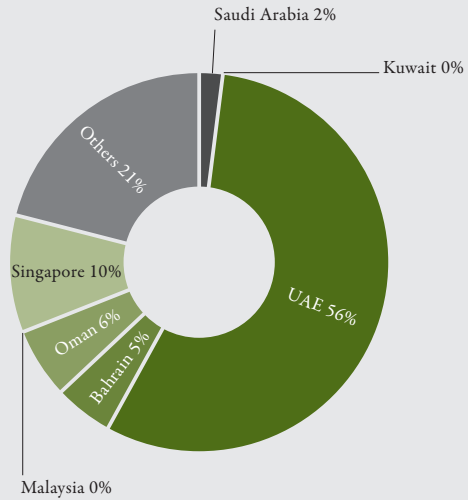
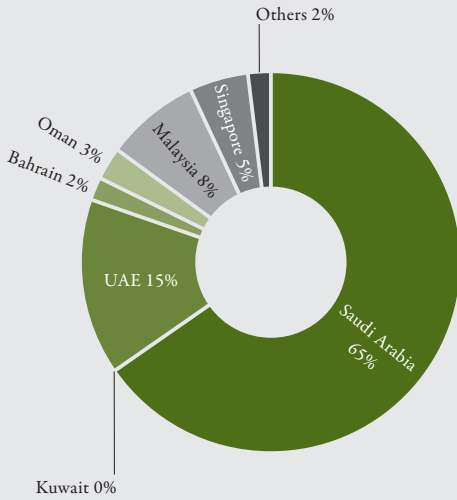
Source: IILS calculations based on the World Bank's Global Bilateral Migration database (1960–2000) and bilateral estimate updates of migrant stocks in 2010.



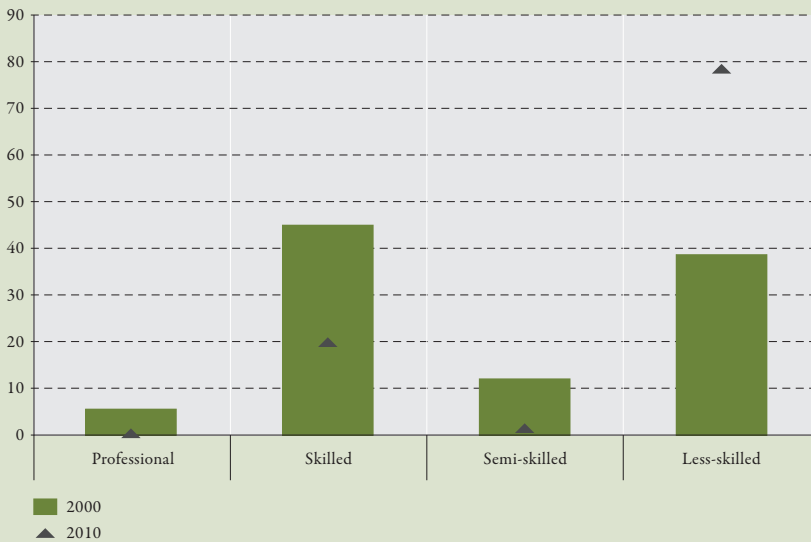
Figure 5.5 Annual outflow of Bangladeshi migrants by country of destination and skills, 2000–10

Panel A. 2000

Panel A. 2010



Panel C. Skill composition (percentages of total outflows)



Note: The Bangladeshi government does not collect data on migrants leaving for India and are thus excluded from the analysis above.

Source: Bangladesh Economic Review.

---

Based on a select survey, the large increase in outflow of Bangladeshis in recent years was driven largely by the demand for less-skilled workers. Indeed, the annual outflow of workers leaving for less-skilled jobs increased by close to four-fold – from 112,556 in 2005 to 448,922 in 2008. Moreover, among the Bangladeshis that move abroad for work, the fraction going for less-skilled jobs increased from 38 per cent in 2000 to 79 per cent in 2010 (Figure 5.5, panel C).

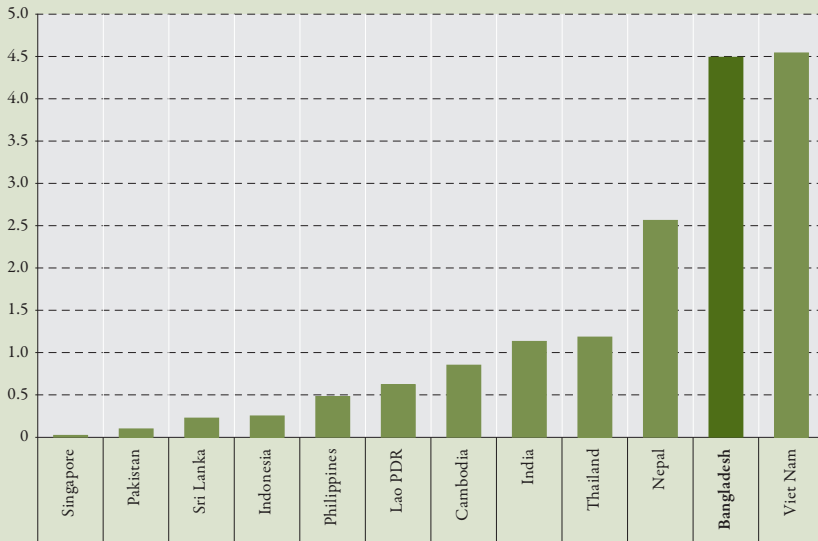
*...despite the fact that the cost to migrate is exorbitantly high and once abroad they are often confronted with difficult working conditions.*

Bangladeshi migrants pay some of the highest recruiting fees in the region – the average cost per person wishing to go abroad for work is 4.5 times higher than the GDP per capita (Figure 5.6).<sup>52</sup> Viet Nam is the only other country in the region where migrants face similar costs. In the case of Nepal, which sends a larger share of its population abroad like Bangladesh, the cost is only 2.5 times higher than the GDP per capita. In the cases of India and Thailand, the cost of migration is roughly the same as the GDP per capita, whereas for other countries such as Indonesia, Laos, and the Philippines, migration cost is roughly 50 per cent of the GDP per capita.

Bangladesh has a law that stipulates how much recruiting agencies can charge a worker looking for an employment opportunity abroad (roughly 2 times the GDP per capita), but very few agencies follow this upper limit. There have been several documented cases of the mistreatment of Bangladeshi migrants during the pre-departure phase (see Box 5.1). Indeed, exploitation before migrating has principally occurred at the hands of recruiting agencies that charge exorbitant fees – exacerbated by the fact that there is a very limited understanding among these workers regarding the nature of jobs, their contracts, wages, and working conditions. In fact, recruiting agencies in some cases even hire non-registered recruiters (Dalals) to circumvent the law that limits how much agencies can charge. Lack of effective oversight and enforcement of the law seems to be the key reason why there is a universal disregard for the upper limit on the cost of migration. As a consequence of the high recruiting fees, surveys show that most

<sup>52</sup> Would-be migrants find jobs abroad through recruiting agencies, which act as “middle-men” between workers and employers. These agencies not only place workers in different enterprises across the Middle East, they also do the administrative tasks related vis-à-vis the Bangladeshi government.

Figure 5.6 Cost of migration: Ratio of cost per person to GDP per capita, 2012



Note: The chart refers to average cost per migrant estimated using national sources; it does not refer to the government-regulated maximum cost per migrant as it is routinely violated by the recruiting agencies in most countries. Nonetheless, NGOs that work on migrant issues tend to report the average cost paid by would-be migrants.

Source: IILS calculations based on national sources for cost of migration and the World Bank for GDP per capita.

Bangladeshi migrants (particularly low skilled) tend to borrow money to migrate. Indeed, 10.6 per cent of an average migrant’s annual income goes towards repayment of loans (Siddiqui and Billah, 2012).

In the destination countries, migrant abuse takes the form of considerable delays in receiving their wages (one month or more), wages often below the minimum wage, lack of social protection and benefits, and in some instances deplorable working conditions. Surveys conducted among workers returning from the Middle East show that late receipt of wages is particularly common among migrant workers.<sup>53</sup> Meanwhile, among the countries in that region, only Saudi Arabia offers free health care to all regardless of the legal status of the individual. Employers in other countries offer basic care but in a lot of cases, there is no provision of health care for migrants.

<sup>53</sup> Survey samples used in these studies tend to be very small therefore more research is necessary to learn more about the nature of migrant abuse in host countries.

*Pre-departure corruption:* According to the 2007 Consultation Report on Bangladesh Labour Migration & Development, migrant workers face fraud and corruption before they even exit Bangladesh, exacerbated by the migrants' low literacy, lack of an educational background, and poor understanding of the migration process, both legally and socially. Many migrants rely on verbal agreements with their recruiters, do not keep papers or contracts, and cannot understand the complex language used in their contracts. Taking advantage of this lack of understanding, recruiters often make false promises of high wages, easy work, and job security. To get around the Bangladeshi regulations in the recruiting market, registered recruiters hire unregistered counterparts called Dalals, who have a much easier time affronting the law. It is common, for example, for Dalals to charge recruiting fees vastly in excess of the legal maximum. Furthermore, a market has developed in the buying and selling of foreign visas, which is largely the result of destination countries' efforts to reduce immigrant labour. The cost of the visa fees have been passed from the destination country industries to the recruiters, who in turn pass the burden to the migrant. It is not uncommon for migrants to invest all of their assets in the migrating process, only to discover an undesirable job that pays far less than promised. The truly unfortunate discover no work at all, as it has been documented that recruiters accept payments for visas they do not own.

*Wages and hours:* According to survey results published by the RMMRU,<sup>54</sup> wages in destination countries vary greatly by country, with large wage disparities between men and women. In Saudi Arabia, the mean wage of men is double that of women; in Kuwait, men make three times as much as women on average. Eighty-two per cent of respondents were unaware of legal minimum wages in their destination countries, despite the fact that the minimum wage laws exist. In cases where the respondents knew the minimum, they were often blatantly paid less. It is common for migrants to work 6- to 7-day work-weeks. Some only receive one holiday per month. Delayed payment is another issue of concern. There are two general cases of late payment: for some, regular payments do not begin until a probationary period of 1–2 months is completed, for others, wages are paid in the third or fourth weeks in the following month instead of in the first week. Late wages are particularly a problem for the garment sector, where the number of migrants experiencing late pay was 55 per cent. Nine out of 10 garment workers in Qatar saw delays in payment.

*Social protections and benefits:* Migrants received varying benefits from both employers and governments across countries. In the RMMRU survey, half of the respondents were provided food by their employer, and 93 per cent were provided free housing. However, this usually involved the placement of 8–10 workers in one 10 × 10-foot room. Malnutrition and disease are frequent among migrant workers; particularly common are jaundice, gastric problems, and tuberculosis. Only Saudi Arabia, though, offers free health care to all regardless of the legal status of the individual. Other employers offer basic care, and some offer no care at all. Women are often subjected to regular check-ups to test for pregnancy and HIV/AIDS. Pregnant women are deported, or in some cases offered abortions. HIV/AIDS patients are simply deported, often without pay. Seventy-seven per cent of survey respondents were not allowed sick leave. Employers

<sup>54</sup> The RMMRU study was conducted by WARBE officials who utilized a uniform survey questionnaire to interview a sample of 100 Bangladeshi migrant returnees. The authors also interviewed BMET, WARBE and BAIRA officials for primary data and utilized electronic resources for secondary data.

**Box 5.1 Abuse of Bangladeshi migrants**

that allowed sick leave often informally punished employees for using it, as reductions in wages were reported in the survey. Some employees are offered monetary social benefits, such as the Workers' Provident Fund in Malaysia. However, these benefits often go unclaimed and remain with employers due to excessive red-tape or paperwork. Perhaps the most detrimental factor affecting migrants is that they are rarely, if ever, allowed to join trade unions, especially in Middle-Eastern Countries. In Saudi Arabia, unions are banned outright.

*Working conditions:* Migrant workers must endure both hazardous and lacklustre facilities while abroad as well. In the RMMRU survey, 45 per cent report high-levels of heat and nearly a quarter report dysfunctional or missing toilet facilities. Most employers provide migrants with water, but only 31 per cent get filtered water. A large majority of workplaces have emergency fire escapes. However, many of them are in disrepair or unusable. There were also widespread reports of verbal abuse, especially in the garment sector, where interviewees reported that excessive workloads were used as justification for harsh conditions. Work targets are most prevalent in this sector, and repercussions for missing target include working later for no additional pay and general wage reductions. Some interviewees reported improvements in conditions when notable brands were subcontracted to their factories. Improvements included clean uniforms, toilet facility repairs, and increases in wages. These improvements are most often only temporary.

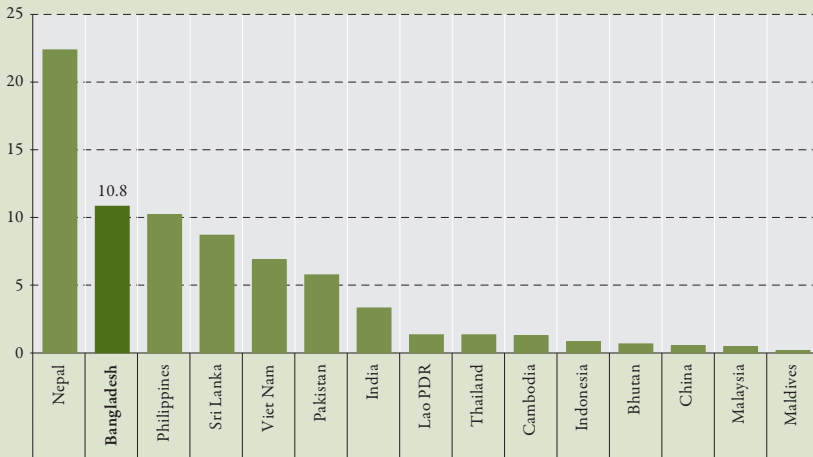
Sources: Siddiqui, Sikder and Hossainul Haque (2004); Khan (2007).

## B REMITTANCES: RECENT TRENDS, HOUSEHOLD AND MACROECONOMIC IMPACT

*Remittance as a share of GDP has grown – driven by inflows in the Middle East ...*

Bangladesh is one of the largest recipients' of remittances per year – in 2011 it was 10.8 per cent of its GDP or over US\$12 billion – a five-fold increase from a decade ago (Figure 5.7). The only other country in the region reporting higher remittances as per cent of GDP was Nepal, at 22.3 per cent in 2010 (US\$4.2 billion). It is important to bear in mind that this figure underestimates total remittances – in the case of Bangladesh 54 per cent of the total remittances every year arrive through informal channels (Freund and Spatafora, 2008). Moreover, this is considerably higher than other countries such as the Philippines where 41 per cent of remittances flow in from informal channels. Informal flows tend to be higher only in countries of sub-Saharan Africa such as Mali, Senegal, and Uganda, where between 70 and 80 per cent of the remittances flow through informal channels (Freund and Spatafora, 2008).

Figure 5.7 Remittances as a per cent of GDP, 2011



Note: The chart refers to remittances through formal channels only, which in the case of Bangladesh accounts for roughly 54 per cent of total remittances (Freund and Spatafora, 2008).

Source: IILS calculations based on the World Development Indicators, World Bank.

*...with lower-skilled workers sending more money, reflecting in part the reliance of Bangladeshis on outside financial support.*

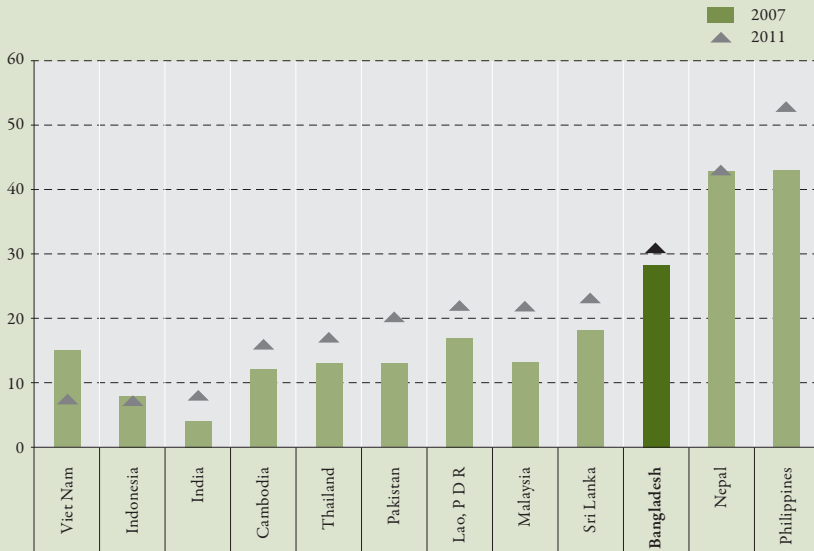
An empirical exercise conducted for this study shows that each Bangladeshi worker abroad sends back home approximately US\$2,760 per year (see Appendix A for more). Interestingly, the amount of remittances per person varies by skill composition – with lower-skilled workers sending a greater portion of the earnings in the form of remittances. The empirical analysis also accounts for other drivers of remittances commonly cited in the economic literature. In particular, the results indicate that higher oil prices also lead to greater annual remittances flowing into Bangladesh. This is mainly because oil prices tend to be a pretty good indicator of the economic health of Gulf countries. Likewise, remittances tend to be higher during lower growth periods in Bangladesh, indicating that a worse economic environment leads migrants to remit more to their families and friends.

Meanwhile, survey data reveals that Bangladesh – at 30 per cent – is among the countries with the highest shares of the population reliant on financial help from abroad (Figure 5.8). In fact, in the region, only the Philippines and Nepal have larger shares. In the Philippines more than half of the population in 2011 relied on support from people abroad for daily sustenance (an increase of more than 10 percentage points from 2007). Meanwhile, in countries such as India, Indonesia and Viet Nam, less than 10 per cent of the people reported in 2011 that they rely on financial help from abroad. Reliance on family friends for daily sustenance also creates a cycle where families and communities continually need to send family members abroad, which in turn reinforces the trend in outward migration.

*Remittances have helped households considerably with important multiplier effects on the broader economy ...*

The latest available survey data on the utilization of remittance by Bangladeshi households shows that one-fifth of the money goes into the consumption of food and clothing, 16 per cent goes into land purchase and construction and repair, while 11.2 per cent goes to agricultural land purchase (Siddiqui and Billah, 2012). These remittances have played an

**Figure 5.8 Reliance on people living outside the country for financial help**  
(percentages)



Note: Survey question asked, “Do you have relatives or friends who are living in another country whom you can count on to help you when you need them, or not?” The figure includes the percentages of respondents that said “yes”.  
Source: Gallup World Poll, 2012.

important role in reducing poverty and facilitating economic development in Bangladesh (Buchenau, 2008; Shubhasish et al., 2007; Siddiqui, 2005). For example, according to a study conducted by the Bangladesh Institute of Development Studies (BIDS), remittances in Bangladesh have a multiplier effect of 3.3 on GNP, 2.8 on consumption, and 0.4 on investment. Indeed, consumption tends to support local employment and stimulate demand for products that benefit households without migrants abroad (de Haas, 2007). Moreover, cross-country evidence shows that the link between migration and development – as measured by poverty reduction, health outcomes and local development – is strong and stems mainly through the inflow of remittances (Box 5.2).

*...due in part to the fact that remittances are a resilient source of capital ...*

Remittances have proven to be an important source of capital for the entire economy. Given that official development assistance (ODA) flowing into



**Box 5.2 Link between migration and development: A review of empirical evidence**

*Poverty reduction:* A study of 71 developing countries shows that “international migration and remittances significantly reduce the level, depth and severity of poverty in the developing world” (Adams and Page, 2005). Furthermore, a 10 per cent increase in per capita remittances can lead to a 3.5 per cent decline in the proportion of people living on under US\$1 per day in the source country (Ratha, 2007). In addition, remittance-receiving households are less likely to be below the poverty line compared with households that do not receive remittances (Ratha, 2007). However, it should be noted that the extremely poor do not have access to migration; hence they are left out from the benefits of migration.

*Health and education improvements:* Country studies have shown that remittances improve the health and education of children and have a positive influence on infant health and in reducing child mortality (Goldin et al., 2011). For example, school dropout rates are lower among households receiving remittances in El Salvador and Sri Lanka (Ratha, 2007). Also, in Sri Lanka, children in remittance-receiving households have higher birth weights, which indicate better access to health care and nutrition. Meanwhile, a study commissioned by the UN shows that among children from Mexican families in which one or more members had migrated, completed 0.7 to 1.6 more years of schooling than children who did not have family members abroad (Taylor, 2006). Similarly, studies conducted in Jordan, Philippines and Thailand, show that remittances have raised the levels of children’s education (Goldin et al., 2011).

*Local development:* Remittances have also shown to stimulate local development (Goldin et al., 2011). For example, in Pakistan and Thailand, families receiving remittances are reported to use them to hire farm labour and purchase agricultural equipment, which tend to enhance the long run agricultural productivity and growth, while ushering in farm modernization. Furthermore, studies conducted in China and South Africa show that remittance-receiving households increased crop production over time by investing extra capital available from remittances (Ghosh, 2006). Meanwhile, remittances have shown to promote self-employment by providing much needed financing for small businesses (Rapoport and Docquier, 2005). For example, in the case of Mexico, a fifth of the capital invested in small enterprises comes from remittances (Taylor, 2006). By some estimates, in Mexico, a remittance receipt of US\$2 billion is shown to have created additional economic growth of \$5.8 billion (Durand, Kandel, Parrado & Massey, 1996).

*Collective transfers:* There have been several country-level efforts at collective transfers that have proved instrumental in the economic development of low and middle-income countries (Goldin et al., 2011). For example, Mexicans living abroad made a collective contributions equal to US\$20 million through Home Town Associations (HTAs), committees to support development efforts at home (Castles and Miller, 2009). Moreover, HTAs have become an important part of Mexico’s development efforts – for example, the government matches each dollar sent through collective remittances and the funds go to philanthropic causes and infrastructure development (Portes, 2008). HTAs are especially effective when based on local development needs, ranging from funding clinics, building roads and bridges and supporting schools and universities (Goldin et al., 2011).

---

Bangladesh declined from 7.3 per cent of GDP in 1980 to 1.2 per cent in 2011 and foreign direct investment (FDI) remains below 1 per cent of GDP; remittances have proven to be a vital source of development finance (Figure 5.9, panel A.). Moreover, based on current trends, by 2024, remittances as a share of GDP will be equivalent to that of exports (20 per cent of GDP).<sup>55</sup>

Meanwhile, remittances have proven to be a resilient source of capital, particularly in terms of the short-term volatility. For example, volatility – measured by standard deviation of the monthly growth rates – of remittance compared with exports shows that between 2007 and 2012, remittances flowing into Bangladesh were less volatile than the exports (Figure 5.9, panel B). The experience of other countries shows that remittances were relatively shielded from the crisis, mainly because: (i) remittances tend to flow from a stock of migrants and often withstand short-run changes in mobility; and (ii) migrants tend to work longer hours or reduce their own consumption during difficult times (Goldin et al., 2011).

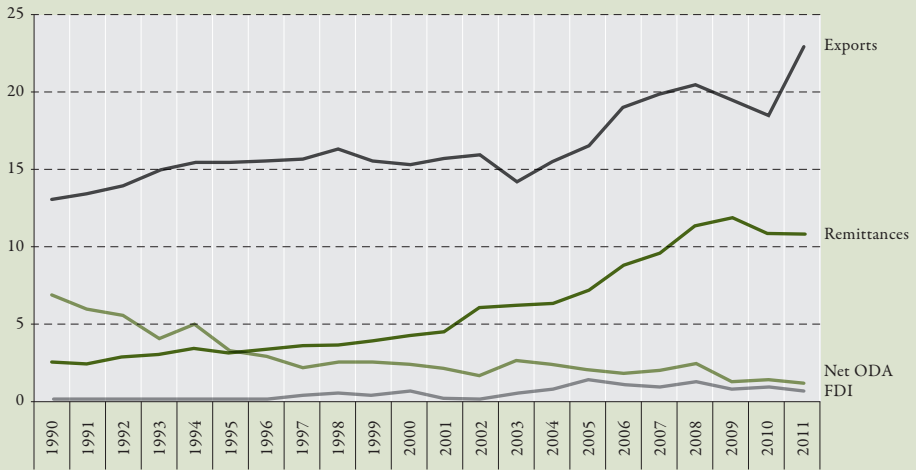
### *...and a strong determinant of savings in Bangladesh...*

The inflow of remittances has alleviated the foreign exchange constraints facing Bangladesh and also generally improved the balance of payments by augmenting national savings. Moreover, for a small country like Bangladesh, remittances have enabled the country to overcome credit constraints stemming from a lack of developed financial system and limited access to external financing (Giuliano & Ruiz-Arranz, 2009). With that in mind, an empirical analysis was conducted to examine the impact of remittances on savings and investment. An econometric exercise based on a database of 165 countries between 1994 and 2010 reveals that remittances have a positive and significant impact on both savings and investments. In particular, a 10 per cent increase in remittance leads to an increase in national deposits by 2.1 per cent and in investment by 1.9 per cent (Figure 5.10, panel A). Meanwhile, among the different sources of capital inflow, remittances are the most important driver of investment and second most important driver of savings.

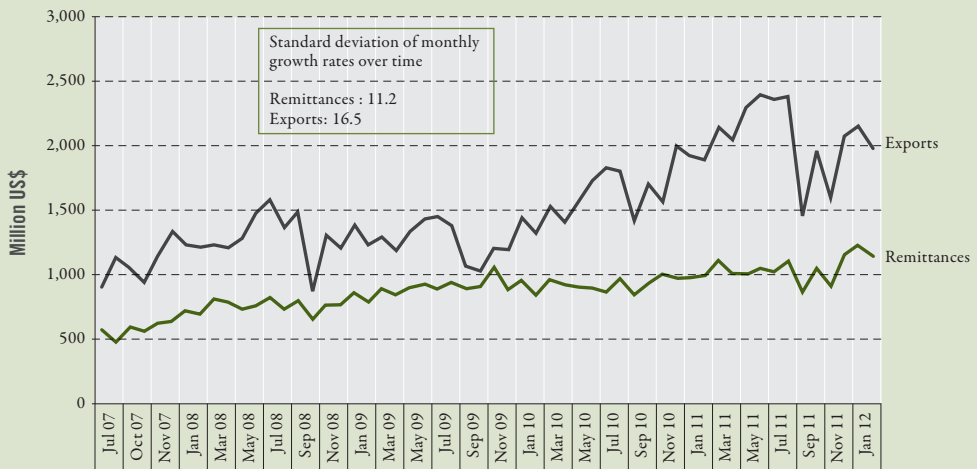
<sup>55</sup> Author's calculations based on the average annual growth rate for exports and remittances for 2006–10.

Figure 5.9 Economic importance of remittances to Bangladesh

Panel A. Economic indicators as a percentage of GDP, 1990–2011



Panel B. Volatility of remittances and exports (standard deviation of monthly growth rates)



Source: IILS calculations based on the World Development Indicators, 2012.

---

In the case of Bangladesh, remittances play an even more important role in determining savings – a 1 per cent increase in remittances leads to 2.5 per cent increase in national deposits. This is an interesting finding given the fact that Bangladeshis tend to use most of their remittances towards consumption. This is likely due to the fact that since 2001, an increasingly larger share of inflows comes through formal channels – money transfers, bank deposits etc. – and this tends to be reported as bank deposits.<sup>56</sup> Additionally, the initial savings rate for Bangladesh was relatively low (before the rapid increase in outmigration and inflow of remittances) and therefore, the recent increases in remittances have had a measurable and significant impact in terms of the relative increase in national deposits.

*...but have not translated into an increase in investment.*

Remittances that translate into savings can be a valuable source of finance for increasing production and investment in developing countries, especially given the limited availability of development assistance. However, unlike the panel regression results discussed above, there seems to be no relationship between remittances and investment in Bangladesh (Figure 5.10, panel B). In fact, the impact is small and statistically insignificant.<sup>57</sup> This is surprising given the large and statistically significant impact of remittances on national savings. There could be several reasons why increased savings have not translated into investment: for example, there could be credit market frictions and borrowing constraints facing enterprises in Bangladesh, or that Bangladeshis leave money in their bank accounts for only relatively short periods, thus making it difficult for banks to provide loans to potential investors.<sup>58</sup>

<sup>56</sup> The data on national deposits does not adjust for the fact that most of the remittance money does not stay in the bank accounts.

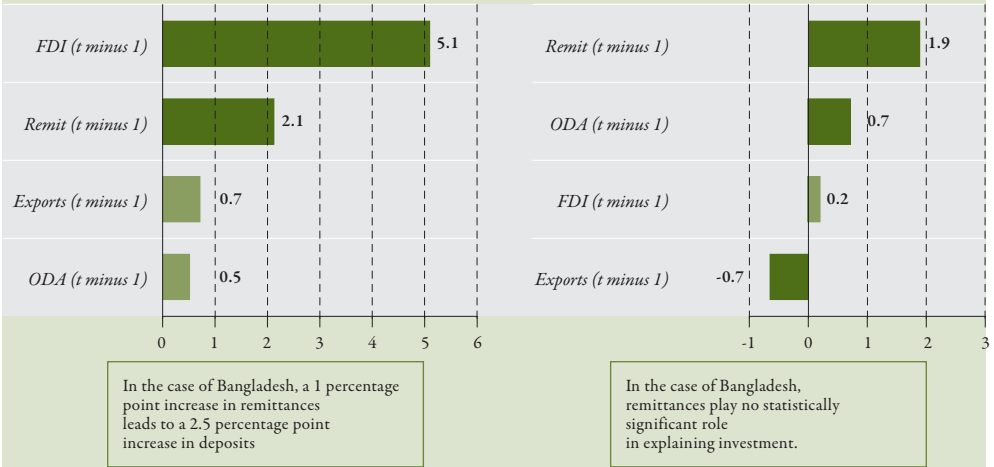
<sup>57</sup> This could also be because of technical reasons such as misspecification of the empirical model, omitted variable bias, or problems related to the measurement of the different indicators used in the analysis. However, given the data and the practice used in the literature, there seems to be no impact of remittances on investment in Bangladesh. See Appendix B for details.

<sup>58</sup> This merits further empirical work in trying to better understand the link between remittances, savings and investment.

**Figure 5.10 Impact of remittances on savings and investment:  
A global overview**

**Panel A. Impact on national deposits**

**Panel B. Impact on fixed capital formation**



Note: blue bars represent statistical significance, while the grey bars represent a lack of statistical significance.

Source: ILS calculations based on 165 countries; see Appendix B for details.

---

## C POLICY CONSIDERATIONS

Migration has played an important role in Bangladesh's economic development and growth in recent years; and going forward, remittances will continue to make significant contributions to households and national income. Yet, in order to maximize the development impact of migration and remittances, there is a need to adopt a comprehensive approach to migration. In particular, efforts are needed to better regulate recruiters to bring down the cost of migration and to ensure that the cost of remittances is not prohibitive. More oversight is also needed with respect to the information provided to migrants before departing, notably regarding the conditions of employment.

In addition, while remittances have led to an increase in national savings and helped alleviate household poverty, this has not translated into an increase in investment. Therefore, measures to better channel these savings into investment by promoting the use of investment vehicles among migrants, as has been done in other developing countries, are also merited to encourage sustainable improvements in growth and development. To achieve this, it will be important to strengthen the already existing government agencies and partner better with civil society organizations. Most importantly, the overall development strategy of Bangladesh should view migration more as a complement rather than a substitute to development.

### 1 **COMPREHENSIVE APPROACH TO MIGRATION: POLICIES FOR PRE-DEPARTURE, WHILE ABROAD AND EVENTUAL REINTEGRATION**

- *Introduce measures to improve pre-departure information:* First, it is important to engage would-be migrants before they leave Bangladesh. Those wishing to leave should be informed of any job opportunities domestically but should also be provided with pre-departure counselling regarding working conditions abroad, goals and objectives of migrating, potential

remittance transfer and savings options, and other financial/investment services. This could be achieved through the provision of orientation courses and migrant resource centres. Examples from other countries that Bangladesh could consider with the aim of disseminating important information about the migratory process and the legal and cultural aspects of various destination countries include:

- *Orientation programme in the Philippines:* First started in 1983, the programme offers two orientations: (i) the pre-employment orientation seminar aimed at those who have not yet decided to migrate and (ii) the pre-departure orientation seminar for those who will soon leave. The latter is compulsory and provides information on each migrant's contract, as well as their rights while travelling abroad. Depending on the migrant's destination country, there may be requirements regarding language courses or other certifications.
- *Migrant resource centres of India and Nepal:* The centres generally provide legal advice, job-matching information, training, counselling, needs assessments, and referrals to other services. These centres are funded by labour-sending countries in coordination with various international organizations and NGOs and set up either in their own city-centres or in some destination countries. In India, a toll-free number with 24-hour access provides pre-departure migrants with valuable information. There is also an international line for migrants who are already in a destination country. Thus far, it is toll-free in the UAE. Meanwhile, Nepal posts most of the information from its resource centre online as well, including laws and cultural advice from certain countries, job openings, and the contact information of some recruiting agencies.
- *Continue to provide assistance to migrants while abroad:* When migrants are in their country of destination, the government through its embassies and consulates can provide basic services such as how to adjust to the new environment, language support, and legal support. Indeed, Bangladesh has 21 labour attachés in 16 missions including in countries such as

---

Jordan, Kuwait, Libya, Malaysia, Saudi Arabia, Singapore, and the UAE. However, studies have shown that the training of labour attachés has proven to be inadequate in dealing with the complex problems migrants face in foreign countries.<sup>59</sup> It is important to provide adequate training to the foreign ministry staff before they leave on their diplomatic missions on issues specifically related to migration, e.g. the labour laws in the destination country and regulations related to safety at the workplace.

- *Strengthen government institutions:* Currently, the BMET, through its 42 District Employment and Manpower Offices (DEMOs), is supposed to provide pre-departure counselling, migrant resource centres, enforcement of regulation on recruiting fees, and assistance while abroad, but studies show that the DEMOs lack adequate funding and are involved mostly with bringing bodies of dead migrants home, paying the cost of burial and distributing compensation.<sup>60</sup> It is important to ensure that the DEMOs and the BMET have adequate resources so that they can provide the necessary services to the migrants. The Bangladeshi government should work with NGOs and non-profits to ensure that migrants are aware of their policies and regulations governing migration.
- *Ensure safety and security of migrants abroad:* Emergency welfare funds could be created to provide loans, life/medical insurance, legal assistance or repatriation assistance to migrants in urgent need of help, usually in cases of accidents. A similar fund with contributory scheme has been introduced in Nepal by some private banks. Meanwhile, it is equally important for the Bangladeshi government to put in place bilateral agreements to ensure that workers work in a safe environment. In that respect, Bangladesh must first itself ratify the ILO Convention on Decent Work for Domestic Work. Only with ratification at home can Bangladesh engage with destination countries and encourage them to ratify the Convention and ensure safety and security of workers while abroad.
- *Reintegration upon return:* The recent case of Bangladeshi migrants fleeing Libya following the revolution provides an interesting case study on the challenges of reintegrating low-skilled migrants: recent survey data shows that only 13 per cent of the returnees from Libya found employment

<sup>59</sup> RMMRU's (Refugee and Migratory Movements Research Unit) proposal to the government regarding creating a new cadre system that unifies all the agencies in charge with dealing with migration policy is a useful step forward.

<sup>60</sup> Siddiqui and Billah (2011).



(Siddiqui and Billah, 2011). This case highlights the difficulty migrants face in finding a job upon return, particularly for the low-skilled workers. There needs to be an action plan to not only reintegrate returnees but to leverage their newly acquired skills in Bangladesh's development efforts. A first step would be to keep a database of the skill profiles of returnees, e.g. Bangladesh currently keeps track of migrants when they leave and could leverage the same procedure upon re-entry.<sup>61</sup> Also, providing business and entrepreneurship training to the returnees is important in facilitating better use of financial resources of a migrant. The BMET, through its DEMOs, needs to have clear guidelines to do this, with increased financial resources and staff.

## 2 INSTITUTIONAL CAPACITY: SUPERVISION AND REGULATION OF RECRUITMENT AND CHANNELS OF REMITTANCES

- *Ensure effective regulation of migration process:* Recruitment agencies operating across Bangladesh should be supervised and regulated to avoid fraud and excessive fees. Many countries have implemented numerous regulations in order to protect migrant workers from fraud and exploitation by recruiting agencies. Minimum wages and recruitment-fee ceilings are common policies that attempt to regulate recruiting agencies. However, these regulations are easily evaded by recruiters. Further attempts to regulate recruiters involve the micro-level management of recruiting. The new trend in regulation is for all recruiting to take place through or in the presence of government officials:
- *Regulatory system of the Philippines:* Agencies and foreign employers are by law jointly liable for breaches of contract. The country also forces the use of standard employment contracts, as well as providing contract validation services at diplomatic posts. In 2010, penalties

<sup>61</sup> The International Organization of Migration (IOM) has been doing some of this already in Bangladesh – the government could work even more closely with them to ensure full registration of returnees (including skills profile) at the time of arrival.

---

for illegal practices were made more stringent, and the purchasing of health and life insurance is now compulsory. Recruiting agencies are also responsible for the repatriation of migrants who have completed their contracts.

- *In Indonesia*, recruitment fees are banned, and agencies must monitor working conditions in receiving countries. Agencies must also go through contracts with each worker at the local government agency before departure and, like in the Philippines, are responsible for migrant repatriation.
- *India* requires that recruitment agencies test migrant skills before signing them to contracts. Agencies are also prohibited from keeping any of the migrants' travel documents.
- *Reduce the financial burden of remitting:* Meanwhile, the inflow of remittances can be increased by lowering the transfer cost. First, it is important to have competition in the transfer business so no money transfer operator has a monopoly. Second, as the Money Laundering Prevention Act of 2002 in Bangladesh proved, effective supervision and regulation of financial institutions is important in increasing the inflow of remittances and discouraging use of informal transfer channels. Third, use of innovative new technology such as remittance transfer through a mobile phone significantly increases the use of formal channels for transfer. Fourth, encouraging the use of formal channels of remittance transfer tends to increase the inflow of remittances. For instance, the government of the Philippines has several policy initiatives through the Central Bank of the Philippines to ensure greater access to the financial institutions' products and services for overseas workers. Laws have been put in place to better regulate the remittance industry, which in turn has encouraged use of formal means of transfer. Also, because of the government's oversight, the remittance fees and exchange rates are regulated, which in turn has helped overseas workers.

### 3 LEVERAGING OF REMITTANCES FOR INVESTMENT AND DEVELOPMENT

- *Promote savings and investment vehicles:* At the heart of effective migration policy lies programmes to channel remittances to investment and development purposes, and there are several policy measures available to the government, some of which are already in operation in Bangladesh. Given the success of these programmes – e.g. special deposit accounts and special bonds to finance public investment – it is important to improve existing schemes and introduce additional measures, given that the increase in national savings due to remittances has not translated into investment in Bangladesh.
- *Matching funds:* One way to encourage remittance use for development is through the provision of matching funds, where the government matches every dollar that overseas migrant groups or home town associations (HTAs) remit back to Bangladesh. For example, Mexicans living abroad use HTAs to support development efforts at home, and now the programme has become an important part of Mexico's development and poverty reduction efforts. The matched funds are used to finance infrastructure projects based on local needs, and range from building bridges and roads to schools and health centres.
- *Incentive schemes for investment:* Similarly, the government could provide investment schemes in the form of preferential treatment for migrants that buy land, build businesses, buy machinery and equipment, etc. Moreover, the government can be creative in designing financial and investment products. For example, through a programme called LINKAPIL (Link for Philippine Development) the government of the Philippines encourages and facilitates the flow of assistance/donations from Filipinos abroad to specific projects back at home. For example, in the field of education, Filipinos living and working abroad can support children from poor communities to pursue education; other efforts include helping micro-enterprises, small-scale infrastructure projects, and health and welfare program-

---

mes. Since its establishment in 1990, close to US\$53 million has been transferred through LINKAPIL.

Moving forward, it is vital for Bangladesh to put in place the above policy measures to not only ensure the rights and safety of migrants, but also to get the most out of migration and remittances. But this in and of itself is not enough to tackle the development challenges facing Bangladesh. Indeed, migration needs to be a complement to Bangladesh's development endeavours – not a substitute. As the Bangladeshi economy continues to grow, there will be new sectors where jobs will be created and having a ready pool of trained workers is essential. Already, 25 per cent of all firms in Bangladesh report that the lack of educated workforce is a major constraint to growth;<sup>62</sup> this is only likely to worsen if young and educated people leave Bangladesh for seemingly better opportunities abroad.

More generally, as underscored by the previous chapters of this report, the challenges facing Bangladesh are multi-dimensional and therefore a comprehensive development strategy to improve employment conditions is urgently needed. Part of that strategy includes an effective suite of migration-oriented policies – but is complemented by measures to create more quality and safe jobs at home, notably by leveraging further the role of women, increasing labour productivity and investment, reducing informality and enhancing the delivery of social programmes.

To achieve success on many of these fronts, the government will need to work closely with workers and employers and international partners. The recent accord signed by the Bangladeshi government with international retailers, trade unions and enterprises, in the wake of the disaster in Savar, underscores the importance of social dialogue in improving “Bangladesh brand” abroad and achieving a more sustainable growth at home. Indeed, effective social dialogue can ensure the best possible design of reforms and increases the likelihood that future growth in Bangladesh will lead to improved employment outcomes and equitable growth.

<sup>62</sup> Source: Enterprise Survey, the World Bank, 2012.

## APPENDIX A.

### DETERMINANTS OF REMITTANCES IN BANGLADESH: AN EMPIRICAL ASSESSMENT

The empirical analysis in this chapter follows the methodology used in the economic literature on the determinants of remittances. The main and most direct driver of remittance inflows is the number of migrants living and working abroad (i.e. migrants' stock abroad). Regarding the other determinants of remittances, they have usually been categorized in the literature into two approaches: the "altruistic" and the "portfolio" approach (IMF, 2010; Hussain and Naeem, 2009; 2009; Shubhasish et al., 2007). The "altruistic" approach assumes that the economic condition at home plays an important role in driving migrants' remittances back home. Other factors frequently discussed in this literature are the length of stay in the destination country, the employment status of other family members, migrant's marital status, migrant's education level, and the severity of family needs. Meanwhile, the "portfolio" approach assumes that remittances, similar to other capital flows, are mainly driven by macroeconomic variables such as GDP growth in the destination country, exchange rate, inflation, and interest rates.

In particular, the present analysis employs information on annual remittance inflows in Bangladesh as dependent variable (*Remit*). This information is drawn from the Bureau of Manpower, Employment & Training (BMET) and defined as worker's remittances, compensation of employees, and migration transfers. In the particular case of Bangladesh, worker's remittance is the only meaningful component; the other components are either zero or have insignificant amounts. Table 5.1 lists the data sources of all variables used in the analysis.

Combining the "altruistic" and the "portfolio" approaches, the analysis includes as explanatory variables the stock of Bangladeshi workers abroad (*Emig*), GDP growth in Bangladesh (*g*), global oil prices (*Price\_oil*), and the Bangladeshi taka per US\$ exchange rate (*ER*).

**Table 5.1 Data source: Determinants of remittance**

Variable	Detail	Source
Remittances ( <i>Remit</i> )	Annual remittance inflows (current US\$)	Bureau of Manpower, Employment & Training (BMET)
Emigration stock ( <i>Emig</i> )	Calculated based upon two assumptions and using statistics on emigration flows of Bangladeshi workers as reported by the BMET <i>Assumption 1:</i> the duration of stay of Bangladeshi workers abroad is of 6 years on average <i>Assumption 2:</i> Bangladeshi workers stay permanently in the country of destination	IILS calculations based upon data from the BMET
Share of mid and less skilled migrants in migrant stock ( <i>LowSkill</i> )	Share of mid-skilled and less-skilled workers in total Bangladeshi workers abroad (stock)	IILS calculations based upon data from the BMET
GDP growth ( <i>g</i> )	GDP growth (annual %)	World Development Indicators (WDI)
World price of ( <i>Price_oil</i> )	Crude oil price, average spot (US\$ per barrel)	World Bank, Global Economic Monitor (GEM), Commodities
Exchange rate ( <i>ER</i> )	Official exchange rate (taka per US\$, period average)	WDI

$$1) \quad Remit_t = \beta_0 + \beta_1 Emig_{t-1} + \beta_2 Emig_{t-1} \times LowSkill_{t-1} + \beta_3 LowSkill_{t-1} + \beta_4 g_{t-1} + \beta_5 Price\_oil_{t-1} + \beta_6 ER_{t-1} + \mu_t$$

In particular, GDP growth in Bangladesh is meant to describe the economic conditions at home. According to the “altruistic” approach, worsening economic conditions at home can create incentives for migrant workers to send larger amounts of money so as to help family members and friends left behind. On the other hand, more than three-fourths of the Bangladeshi migrants go to the Middle East for work, and oil prices in the region are known to be a major determinant of labour demand and wages; therefore, oil prices in this study serve as a proxy for the economic condition in the destination country. Lastly, empirical studies have shown that exchange rate plays an important role in determining remittance inflows. As national currency depreciates, the value of every dollar earned abroad in terms

of domestic currency increases, thus increasing the purchase power and leading to a *wealth* effect at home. This *wealth* effect creates incentive for workers to remit back larger amounts of money.

Although the composition of migrants is an important determinant of remittances, there is little empirical evidence on the importance of migrant characteristics. The novelty of this study is that it looks at how the skill mix of migrants abroad might affect the amount remitted home. To that end, this study uses data on the outward flows as well as the skill composition of Bangladeshi migrant workers drawn from the BMET. To obtain stock figures using data from the BMET on migrant flows, some assumptions have to be made. Based on fieldwork in villages of Tangail and Chittagong, (Siddiqui & Abrar, 2003) found that Bangladeshi migrants stayed abroad on average 6 years; therefore, the migrant stock values were contrasted assuming that the duration of stay is of 6 years; specifically, migrant stock at time  $t$  is the sum of migrant flows during the previous 6 years. Subsequently, as a robustness check, stock figures assuming that the migration of Bangladeshi workers is permanent was used; that is, accumulating migration flows over time. Finally, the skill mix of migrants enters the equation regression as the share of low-skilled migrants in total worker's migration (*LowSkill*) and, subsequently, as the interaction term between migration stock and the low-skill share.

Table 5.2 presents the results of OLS regressions using robust standard errors for statistical inferences. To avoid endogeneity concerns related to reverse causality, all explanatory variables have been introduced in lags. Equation regressions 1–4 use migration stocks based on the 6-year assumption and equations 5 and 6 assume permanent migration. Equation 1 (column 1) includes all explanatory variables except for the low-skill share; equation 2 adds the share of low-skilled migrant workers in the regression model. Then, in equations 3–6, interaction terms are introduced. Finally, models 4 and 6 account for a time trend to control for the fact that remittances and their determinants grow over time.

**Table 5.2 Determinants of remittance in Bangladesh**

	Remittances					
	Assumption 1: migrants returning after 6 years			Assumption 2: permanent migration		
	1	2	3	4	5	6
<i>Emig. stock (t minus 1)</i>	2,037.80*** [614.67]	2,023.46** [936.42]	2,058.82*** [702.98]	2,758.58*** [892.99]	980.82*** [257.57]	1,137.92*** [213.91]
<i>Emig (t minus 1) multi</i>			222.02*** [76.74]	149.83* [72.51]	182.48*** [48.41]	163.79*** [38.29]
<i>LowSkill (t minus 1)</i>		2'496'280 [72729440.64]	564477911.68*** [186176519.87]	358830099.27* [204005961.73]	1.26e+09*** [327374985.93]	1.14e+09*** [265375581.77]
<i>g (t minus 1)</i>	-2.44e+08** [102252000.14]	-2.44e+08** [103849915.61]	-149'000'000 [91976469.10]	-127'000'000 [104047087.44]	32'894'135.57 [59958179.78]	-12'982'120.92 [53749038.89]
<i>Oil price (t minus 1)</i>	74821847.69*** [7,763,701.15]	75073019.66*** [13157562.72]	55323990.55*** [12879992.17]	45686305.82*** [15713439.81]	46198272.50*** [7,535,883.26]	39531356.72*** [6,863,302.61]
<i>ER (t minus 1)</i>	29'541'304 [19434532.08]	29'495'589 [19319023.39]	100026751.14*** [22657065.38]	186598853.51*** [63233652.72]	50'568'731.08 [36648873.48]	125657616.69*** [37030032.26]
<i>Year trend</i>				-233'000'000 [148162352.87]		-1.64e+08*** [43343958.36]
<i>Constant</i>	4.60e+09* [2.38e+09]	4'590'000'000 [2.70e+09]	1'940'000'000 [1.62e+09]	464'000'000'000 [2.95e+11]	4.80e+09* [2.81e+09]	3.30e+11*** [8.53e+10]
<b>Observations</b>	29	29	29	29	34	34
<b>R-squared</b>	0.97	0.97	0.98	0.98	0.98	0.99
<b>First year</b>	1'982	1'982	1'982	1'982	1'977	1'977
<b>Last year</b>	2'010	2'010	2'010	2'010	2'010	2'010

Robust standard errors in brackets  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

In spite of the reduced number of observations, the results are largely consistent with the literature on the determinants of remittances. The migration stock of Bangladeshi workers always has a positive and significant impact on annual remittances; in particular, estimations indicate that, all things being equal, an additional Bangladeshi worker abroad raises annual remittances into Bangladesh by around US\$2,000 (equations 1 and 2). Interpreting the coefficients on the migration variable in equations 3–6 requires some explanation. These coefficients should not be interpreted as the constant effect of migration on remittances but, because of the introduction of an interaction term between migration and the low-skill share, they should be interpreted as the impact of migration on remittance conditional on particular values of the skill variable. In other words, introducing interaction terms allows the impact of migration on remittances to vary with the skill composition of Bangladeshi workers abroad. In particular, the coefficient on the migration variable in equations 3–6 should be interpreted as the



impact of migration on remittances at the share of low skilled migration in 2010, which amounted to 71 per cent.<sup>63</sup> It is worth noting that the present analysis might underestimate the real impact of migration on remittances. This is because, as indicated earlier in this chapter, it is estimated that more than 50 per cent of remittances are transferred to Bangladesh through informal channels, which are not being accounted for in the remittance variable in this analysis.

Regarding the coefficients on the interaction terms, they are always positive and significant; this implies that the average amount of money sent back home by Bangladeshi workers does depend on the skill composition of migrants. In particular, one percentage point increase in the share of low-skilled Bangladeshi workers abroad raises annual remittances sent to Bangladesh by around US\$150 and US\$220 per worker. Regarding the other explanatory variables, our results show that higher oil prices significantly lead to higher annual remittances flowing into Bangladesh, and that depreciation episodes of the Bangladeshi taka (BDT) vis-à-vis the US dollar (more BDT per US\$) are associated with higher remittance inflows. Lastly, the impact of GDP growth on remittances is negative most of the time, giving some support to the “altruistic” approach as lower economic growth rates in Bangladesh lead to larger amounts of remittances sent back home.

<sup>63</sup> This is because of the way the database was constructed as before creating the interaction terms, variables were redefined by subtracting their value in 2010.

## APPENDIX B.

### MACROECONOMIC IMPACT OF REMITTANCES

Based on previous research on the link between financial development and remittances, the analysis conducted for this chapter aims at investigating the impact of remittances on both national savings and investment.<sup>64</sup> To this end, a panel data with information on remittance flows to 165 countries between 1994 and 2010 is employed. In particular, this analysis looks at the link between remittances and savings, which is measured as deposits at bank and financial institutions. Second, a similar analysis is conducted to investigate the link between remittances and investment, proxied by countries' fixed capital formation. Table 5.3 lists the source of the variables used in the analysis.

**Table 5.3 Data source: Impact of remittances on savings and investment**

Deposits to GDP ( <i>Deposits</i> )	Financial system deposits to GDP (%)	Global Financial Development, the World Bank
Fixed capital formation to GDP	Gross fixed capital formation (% of GDP)	World Development Indicators (WDI)
Remittances to GDP ( <i>Remit</i> )	Workers' remittances and compensation of employees, received (% of GDP)	WDI
GDP per capita ( <i>GDP_cap</i> )	GDP per capita (constant 2000 US\$)	WDI
GDP	Log of GDP (constant 2000 US\$)	WDI
Inflation ( $\pi$ )	Inflation, GDP deflator (annual %)	WDI
Exports to GDP ( <i>Exports</i> )	Exports of goods and services (% of GDP)	WDI
FDI to GDP ( <i>FDI</i> )	Foreign direct investment, net inflows (% of GDP)	WDI
ODA to GDP	Net official development assistance received (% GDP)	WDI

<sup>64</sup> See Aggarwal, Demirguc-Kunt and Martinez Peria (2011), Chowdhury (2011) and Ratha and Shaw (2006).

As shown in equation 2, national deposits are explained by remittances (Remit) while controlling for variables known to also affect saving and investment decisions in an economy. In particular, all equation regressions control for countries' GDP per capita ( $GDP\_cap$ ), the log of GDP ( $GDP$ ), Inflation ( $\pi$ ), as well as for different capital and income inflows such as exports, foreign direct investment ( $FDI$ ), and development assistance ( $ODA$ ). Subsequently, the same set of variables is used to explain countries' fixed capital formation. It must be noticed that except for GDP, GDP per capita, and inflation all variables are expressed as a percentage of GDP. In addition, to avoid endogeneity concerns related to reverse causality, all explanatory variables have been introduced in lags.

$$2) \text{ Deposits}_t = \beta_0 + \beta_1 \text{Remit}_{t-1} + \beta_2 \text{Remit}_{t-1} \times \text{BGD} + \beta_3 \text{BGD} + \beta_4 \text{GDP\_cap}_{t-1} + \beta_5 \text{GDP}_{t-1} + \beta_6 \pi_{t-1} + \beta_7 \text{Exports}_{t-1} + \beta_8 \text{FDI}_{t-1} + \beta_9 \text{ODA}_{t-1} + \mu_t$$

Except for inflation, all variables should have a positive impact on savings and investment. In particular, higher GDP per capita is indicative of a larger number of wealthy individuals who are able to save and invest a relatively larger share of their income. Second, country size, proxied by country's GDP, might indicate presence of a critical mass allowing the financial system to cover the fixed cost of operating in the market and to increase efficiency in the allocation of financial resources. Third, exports, FDI and ODA inflows, are money injection into the economy that may afterwards be channelled into national savings and investment. Finally, regarding the inflation rate, it can either have a positive or a negative effect depending on whether it explains savings or investment. In fact, Inflation might increase current consumption as well as investment in durable goods at the expense of money deposits at banks and financial institutions as individuals try to protect themselves against wealth losses in real terms. Therefore, inflation should have a positive impact on fixed capital formation, while having a negative impact on savings.

First analysis involves looking at the average impact of remittances on both savings and investment across countries, and then the second one involves examining the impact of remittances on Bangladesh vis-à-vis the rest of the world. This is done by means of an interaction term between remittances and a dummy variable taking on the value of 1 for Bangladesh observations and 0 otherwise (BGD). Results are presented in Table 5.4; all regression equations include time-fixed effects to control for shocks and time trends shared across countries. In regressions 1–4, the dependent variable is deposits to GDP and, in 5–8, fixed capital formation to GDP. Equations 3, 4, 7 and 8 include country-fixed effects to control for unobserved country characteristics not varying or varying little over time. Finally, equations 2, 4, 6 and 8 include the interaction term relating to Bangladeshi observations.

**Table 5.4 Impact of remittances on savings and investment**

	Deposits				Fixed capital formation			
	1	2	3	4	5	6	7	8
<i>Remit (t minus 1)</i>	0.671*** [0.122]	0.664*** [0.121]	0.221** [0.102]	0.205** [0.103]	0.273*** [0.0465]	0.272*** [0.0465]	0.193*** [0.0516]	0.192*** [0.0519]
<i>Remit (t minus 1) multi BGD</i>		1.852** [0.867]		2.301*** [0.226]		0.218 [0.187]		0.105 [0.144]
<i>BGD (t minus 1)</i>		7.617* [4.416]				-0.497 [1.299]		
<i>GDP cap. (t minus 1)</i>	0.00243*** [0.000147]	0.00244*** [0.000147]	0.00301*** [0.00103]	0.00304*** [0.00103]	-0.0000306 [1.92e-05]	-0.00003 [1.93e-05]	0.000054 [0.000141]	0.000055 [0.000142]
<i>Ln (GDP) (t minus 1)</i>	0.864* [0.450]	0.811* [0.451]	-2.228 [5.931]	-2.591 [5.929]	0.0241 [0.114]	0.0219 [0.115]	8.823*** [2.983]	8.809*** [2.992]
<i>Inflation (t minus 1)</i>	-0.0102*** [0.00317]	-0.0101*** [0.00313]	-0.003 [0.00193]	-0.003 [0.00193]	-0.0000461 [0.000728]	-0.000046 [0.000727]	0.000527 [0.00134]	0.000524 [0.00134]
<i>Exports (t minus 1)</i>	0.471*** [0.0491]	0.476*** [0.0491]	0.068 [0.0783]	0.067 [0.0782]	0.0454*** [0.00735]	0.0456*** [0.00738]	-0.0700* [0.0407]	-0.0701* [0.0407]
<i>FDI (t minus 1)</i>	0.980*** [0.0729]	0.977*** [0.0728]	0.509*** [0.0433]	0.509*** [0.0431]	0.0116 [0.0101]	0.0115 [0.0101]	0.0209 [0.0178]	0.0209 [0.0178]
<i>ODA (t minus 1)</i>	-0.127 [0.0782]	-0.121 [0.0786]	0.052 [0.0571]	0.050 [0.0566]	-0.04 [0.0247]	-0.0398 [0.0247]	0.0719** [0.0360]	0.0719** [0.0360]
<i>Constant</i>	-14.680 [11.74]	-13.860 [11.74]	85.960 [142.9]	94.290 [142.8]	19.99*** [2.970]	20.03*** [2.976]	-186.5*** [71.25]	-186.2** [71.46]
<b>Observations</b>	2'101	2'101	2'101	2'101	2'167	2'167	2'167	2'167
<b>R-squared</b>	0.73	0.73	0.55	0.55	0.11	0.11	0.11	0.11
<b>First year</b>	1994	1994	1994	1994	1994	1994	1994	1994
<b>Last year</b>	2009	2009	2009	2009	2009	2009	2009	2009
<b>Country FE</b>	NO	NO	YES	YES	NO	NO	YES	YES
<b>Time FE</b>	YES	YES	YES	YES	YES	YES	YES	YES
<b>Number of countries</b>			165	165			165	165

Robust standard errors in brackets. In equation models # 3, #4, #7 and #8, standard errors have been adjusted for 165 clusters in country.

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

It is interesting to note that among all factors included in the analysis only remittances appear to have a positive and significant impact on both savings and investment across specifications. With respect to the other variables, GDP per capita consistently boosts national savings, but it has no significant impact on investment. Regarding country's GDP and inflation rate, when statistically significant, they are correctly signed but the results are not robust across specifications. Using the full specification to explain savings and investment (equations 4 and 8, respectively), among the different inflows, remittances are the most important driver of fixed capital formation and, after foreign direct investment, the second most important factor in deposits. In particular, a 10-point increase in the remittances to GDP ratio raises the deposits to GDP ratio by 2.05 points and the fixed capital formation to GDP ratio by 1.92.

Finally, as the results of the interaction term indicate, the impact of remittances on savings is significantly higher for Bangladesh vis-à-vis the rest of the world. Moreover, remittances have a multiplier effect on savings, with a one-point increase in the remittances-to-GDP ratio, raising deposits-to-GDP by around 2.5. By contrast, remittances do not play a statistically more important role in explaining investment in Bangladesh vis-à-vis the rest of the world.

---

## REFERENCES

Adams Jr, R.H.; Cuencuecha, A. 2010. "Remittances, household expenditure and investment in Guatemala", in *World Development*, Vol. 38, No. 11, pp. 1626–1641.

Adams, R.H.; Page, J. 2005. "Do international migration and remittances reduce poverty in developing countries?", in *World Development*, Vol. 33, No. 10, pp. 1645–1669.

Aggarwal, R.; Demirguc-Kunt, A.; Martinez Peria, M.S. 2011. "Do remittances promote financial development?", in *Journal of Development Economics*, Vol. 96, No. 2, pp. 255–264.

Aguinas, D.R. 2005. *Remittances and development: Trends, impacts, and policy options. A review of the literature* (Migration Policy Institute).

Awad, I. 2009. *The global economic crisis and migrant workers: Impact and responses* (Geneva, International Migration Programme, ILO).

Buchenau, J. 2008. *Migration, remittances and poverty alleviation in Bangladesh report and proposal* (Dhaka: United Nations Development Programme).

Chowdhury, M.B. 2011. "Remittances flow and financial development in Bangladesh", in *Economic Modelling*, Vol. 28, No. 6, pp. 2600–2608.

De Haas, H. 2007. *Remittances, migration and social development: A conceptual review of the literature*, Social Policy and Development, Programme Paper No. 34, UNRISD.

De Vries, S. 2011. *Mobilizing the use of remittances towards poverty reduction and economic and social development through government initiatives: the Philippine perspective*, paper delivered during the Single Year Expert Meeting on Maximizing the Development Impact of Remittances, 14–15 February 2011 (Geneva, United Nations Conference on Trade and Development).

Durand, J.; Kandel, W.; Parrado, E.A.; Massey, D.S. 1996. "International migration and development in Mexican communities," in *Demography*, Vol. 33, No. 2, pp. 249–264.

Freund, C.; Spatafora, N. 2008. "Remittances, transaction costs, and informality", in *Journal of Development Economics*, Vol. 86, No. 2, pp. 356–366.

Giuliano, P.; Ruiz-Arranz, M. 2009. "Remittances, financial development, and growth", in *Journal of Development Economics*, Vol. 90, No. 1, pp. 144–152.

- Ghosh, B. 2006. *Migrants' remittances and development: Myths, rhetoric and realities* (Geneva, International Organization for Migration (IOM)).
- Goldin, I.; Cameron, G. ; Balarajan, M. 2011. *Exceptional people: How migration shaped our world and will define our future* (Princeton, NJ: Princeton University Press).
- Hussain, Z.; Naeem, F. 2009. *Remittances in Bangladesh: Determinants and 2010 outlook*. Available at: <http://blogs.worldbank.org/endpovertyinsouthasia/remittances-bangladesh-determinants-and-2010-outlook-0> [25 May 2013].
- International Labour Organization (ILO). 2010. *Making migration a development factor: The case of North and West Africa* (Geneva, International Institute for Labour Studies).
- International Monetary Fund (IMF). 2010. *Bangladesh: Selected issues* (Washington, DC).
- International Organization for Migration (IOM). 2005. *Dynamics of remittance utilization in Bangladesh*, IOM Migration Research Series (Geneva).
- Khan, A. 2007. *Consultation report on Bangladesh labour migration and development: Problems and prospects*, report compiled of input by a panel of consultants (Dhaka, Bangladesh), 30 December.
- Luckanachai, N.; Rieger, M. 2010. *A review of international migration policies* (Geneva, International Institute for Labour Studies).
- Portes, A. 2008. "Migration and social change: Some conceptual reflections", keynote address to the conference on *Theorizing Key Migration Debates*, Oxford University, July 2008.
- Rapoport, H.; Docquier, F. 2005. *The economics of migrants' remittances*, Discussion Paper No. 1531, The Institute for the Study of Labor (IZA) (Bonn).
- Ratha, D. 2007. "Leveraging remittances for development", in *Migration Policy Institute Policy Brief*, June (Washington, DC, Migration Policy Institute).
- Ratha, D.; Shaw, W. 2006. "Trends, determinants, and macroeconomic effects of remittances", in *Global Economic Prospects 2006: Economic implications of remittances and migration* (World Bank), pp. 85–115.
- Ray, S.; Sinha, A. K.; Chaudhuri, S. (2007). *Making Bangladesh a leading manpower exporter: Chasing a dream of US\$30 billion annual migrant remittances by 2015* (Calcutta, Indian Institute of Management).

---

Shubhasish, B.; Majumder, M.A.; Akhtaruzzaman, M. 2007. *Determinants of workers' remittances in Bangladesh: an empirical study* (Dhaka: Policy Analysis Unit Bangladesh Bank).

Siddiqui, T. 2005. *International labour migration from Bangladesh: A decent work perspective*, Policy Integration Department Working Paper No. 66 (Geneva: ILO). Available at: [http://archive.unctad.org/sections/wcmu/docs/ciem4\\_Country\\_Paper\\_Philippines\\_De\\_Vries\\_en.pdf](http://archive.unctad.org/sections/wcmu/docs/ciem4_Country_Paper_Philippines_De_Vries_en.pdf) [25 May 2013].

Siddiqui, T.; Abrar, C. 2003. *Migrant worker remittances and micro-finance in Bangladesh*, working paper (International Labour Office).

Siddiqui, T.; Billah, M.M. 2011. *Labour migration from Bangladesh 2011: Achievements and challenges*, January (The Refugee and Migratory Movement Research Unit (RMMRU)).

Siddiqui, T.; Sikder, M.J.U.; Hossainul Haque, K.N.M. 2004. *Work condition of Bangladeshi factory workers In the Middle Eastern countries*, Refugee and Migratory Movements Research Unit (RMMRU).

Taylor, E. J. 2006. *International migration and economic development*, International Symposium on International Migration and Development, Population Division, Department of Economic and Social Affairs, UN.





**BANGLADESH:**  
**SEEKING BETTER EMPLOYMENT CONDITIONS  
FOR BETTER SOCIOECONOMIC OUTCOMES**

Over the past two decades, Bangladesh has experienced sustained economic growth as it has transformed itself from an agricultural-based economy to one more reliant on exports and manufacturing. At the same time, there have been important reductions in poverty and improvements in gender equality. However, the rate of employment creation has been unable to keep pace with the significant rise in the working-age population. The result is that informal employment remains persistently high and many Bangladeshis, particularly youth, want to move permanently to another country in search of better employment prospects.

This study on Bangladesh, part of the on-going series entitled *Studies on Growth and Equity*, highlights that many of these migrant workers are often confronted with difficult employment conditions abroad and their remittances have not translated into higher investment – which has further dampened productivity gains and formal job creation at home. The report calls for the government to work together with social partners to enhance job creation and reduce informality by: (i) improving productivity and occupational health and safety; (ii) removing

the obstacles to higher investment, including leveraging remittances for broad development objectives; (iii) improving basic education and skills matching; and (iv) reducing further gender inequities, especially in terms of employment outcomes. Part of that strategy will include ensuring that social programmes are more effective at establishing a floor for longer-term development needs.

ISBN 978-92-9-251025-1



9 789292 510251