

CHAPTER 2: EMPLOYMENT AND POVERTY

I. Introduction

Dhaka is a city of opportunity for many. Migrants flock to the city in search of jobs and better lives. The appeal of the capital city is strong with prospects for employment in a range of sectors, particularly services and industry. The labor market is dynamic, with entrepreneurs arriving every day hoping to carve out a decent living for themselves and their families.

Yet for the estimated 28 percent of the city's poor, earning a living sufficient to meet the basic needs of themselves and their families is a continual struggle. Low wages, underemployment, unemployment and low skills levels are all challenges faced by the poor in the labor market. Understanding and addressing these problems is key to poverty reduction.

This chapter presents analysis of the characteristics of the labor market and links with the poor, with potential areas for policy change. The analysis is mainly based on the 2000 Labor Force Survey.¹⁶ For the purposes of this study we focus on the Dhaka Statistical Metropolitan Area (DMA) which includes Dhaka (also called the Dhaka City Corporation (DCC) area), and the periphery area.¹⁷ While this data is insightful and provides a good basis for analysis, there are some limitations: it is not current and the situation in Dhaka is rapidly changing; there are no data on travel to work, no panel data, and there are shortcomings with the classification of domestic workers living with their employers (Box 2.1).

II. General Characteristics of the Labor Force in Dhaka

The labor force in Dhaka grew twice as fast as the country as a whole in the late nineties largely due to continuing migration and increasing female labor force participation. Between 1996 and 2000, Dhaka's labor force grew by 15 percent as compared with 7 percent for the country as a whole. There were an estimated 3.5 million people in the Dhaka SMA labor force in 2000, representing 59 percent of the total working age population in the city (10 years and over) – 84 percent of the male and 33 percent of the female working age population.¹⁸

¹⁶ More detailed analysis is included in the background paper prepared for this study (Salmon, 2004).

¹⁷ The list of thanas (municipalities) covered is included in Annex, Table A2. The sample of DMA is composed of 1500 households, and 6225 individuals. The sub-sample of 861 children between ages 5-10 received a specific questionnaire on their possible employment and school attendance.

¹⁸ This refers to the extended definition of the labor force which includes any person aged 10 years and over who was either employed (worked at least one hour in a week) for pay or profit who was with /without pay or profit during the reference period as economically active. It includes own household economic activities. By contrast, the usual definition excludes these own household activities. The Standard unemployment rate is absolutely unemployed/total labor force. The "Proposed" unemployment rate is total unemployed persons (absolutely unemployed + unpaid family workers)/total labor force. Underemployment rate is people working less than 35h per week/employed labor force. Unemployment and underemployment rate is total unemployed persons + underemployed persons/total labor force.

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The main sector of employment is services, which employs more than two-thirds of the city's population, substantially higher than the country as a whole (25 percent), and the second main city Chittagong, SMA (50 percent). Industry represents 20 percent of all employment in Dhaka with about half of that in the garment sector. This accounts for 28 percent of female employment, similar to Chittagong but higher than other cities.

Interestingly, the remaining 11 percent work in agriculture, which is explained by the fact that a significant part of the land in Dhaka SMA is non-urban. This land is found on the periphery of the City where a large share of the low income population lives.

The share of formal employment in Dhaka SMA is much higher than the rest of the country at 51 percent including 14 percent in the public formal sector and 37 percent private (37 percent). For the country as a whole, formal sector employment only reaches 20 percent.

As expected, education levels are higher in Dhaka SMA than for the rest of the country with more than half of the employed population aged 15 years and over attaining a level of education higher than Class VI. This compares with only 25 percent for the country.

Female labor force participation is considered relatively high compared to other South Asian countries, though lower than most African countries and some East Asian countries. In Dhaka SMA women represent 33 percent of the labor force as compared with 18 percent in New Delhi and 14 percent in Calcutta (Census of India, 2001).

Unemployment in Dhaka is between 7.4 percent and 10.4 percent depending on the rate used (standard or proposed). Assuming the proposed rate, this is slightly lower than the country as a whole (11 percent), but higher than the cities of Khulna (7 percent) and Rajshahi (8.6 percent). Underemployment, while an issue in the labor market in Dhaka at 16 percent is substantially lower than the rest of the country (35 percent). This is explained by the fact that underemployment is more common for agricultural workers. Underemployment rate for Chittagong is 23 percent of the labor force and 27 percent in Khulna.

III. Employment and the Poor

For the purposes of the poverty analysis in this chapter, the population was classified into three groups:

Poor. The individuals who belong to the three lower deciles with per capita expenditures below the official lower poverty line.

Near Poor. The individuals who belong to the deciles 4 and 5 and live on the margins of poverty. Their expenditures per capita are higher than the lower poverty line, but it is likely that many of these households fall in and out of extreme poverty depending on seasonal earnings and other conditions in the labor market.

Non-poor. Individuals who belong to the deciles 6 to 10 with expenditures per capita over the poverty line enabling them to meet their basic needs.

A. General characteristics

A number of characteristics of the poor in the labor market emerge from the analysis of the LFS survey. A household is more likely to be poor if the head of the household is unemployed or underemployed, works in the informal sector, and is a day laborer, or works in transport or agriculture. Women and children in poor households are more likely to enter the labor force, and work in low quality jobs, than in non-poor households.

As was seen in Chapter 1, the demographics of the household are closely linked to the probabilities of being poor. While a large number of dependents increases the probability of being poor as would be expected, the structure of the household is also highly important. The presence of a high proportion of male adolescents aged 9 to 14 in the household decrease the probability to be poor though there is no significant effect of the share of girls aged 9 to 14 on the probability to be poor. While it is common for young girls in poor households to work, a larger share are not paid and a significant share that are working, are not counted as a member of their own household, but as member of their employer's household where they work as live-in maids. This creates a possible bias in the data (Box 2.1).

In contrast, the higher the share of adults, male or female, the lower the probability of being poor. Among the other variables, education stands out - the more educated the head of the household, the lower the probability of being poor. Estimations also show that the age of the head also has explanatory power once the effects of the structure of the household are controlled for. The older the head, the lower the probability of the household being categorized as poor. As expected, the fact of owning no assets - such as a rickshaw, a sewing machine - increases the probability of being poor.

Table 2.1: Employment Characteristics of Households by Income Group

Variable	Poor*	Near poor	Non-Poor
	Mean	Mean	Mean
Number of observations	454	296	750
Household Size	5.13	4.68	4.40
Ratio of earners/household size	0.30	0.34	0.36
% male workers unemployed or under-employed	16	15	11
% of households where the wife is working	29	30	23
% of income earned by female workers	16	12	9
% of households where a child is working	28	18	16
% of income earned by children workers	6	2	1
% of household heads employees	35	39	45
% of household heads day laborers	13	5	1
% of household heads self-employed	44	50	40
% of household heads in the formal sector	43	49	63
% of household heads in transport	20	17	7
% of household heads in trade	18	28	29
% of household heads in agriculture	11	8	5
% of household heads in manufacturing	11	10	9
% of household heads in construction	5	4	3
% of household heads in finance	1	2	7

Source: 2000 LFS. Extended definition of employment. Standard Deviations are reported in Annex 2.

* Poor represents Deciles 1-3; Near Poor Deciles 4-5; Non-Poor, Deciles 6-10

B. Employment Sector and Occupation

More than two thirds of male workers from poor households are found in two categories of jobs – production workers (including transport laborers such as rickshaw pullers) and trade workers (street vendors, retail trade). Poor male workers are also over-represented as agricultural workers. Agriculture and transport activities are almost exclusively employment for the poor, which is not the case for trade.

Table 2.2: Sectoral Distribution of Male Workers in Dhaka SMA by Income Group (in percentage)

Sector	Poor	Near Poor	Non-poor	Total
Agriculture	12.8	10.1	6	8.9
Mining	0	0.3	0.2	0.2
Manufacturing	14.8	14.8	12.3	13.6
Energy	0	0.5	0.6	0.4
Construction	4.5	4.1	2.8	3.6
Trade	27.3	34.2	33.9	32
Transport	17.1	16.3	8.5	12.7
Finance	1.4	2.3	7.4	4.6
Community services	18.0	15.3	23.8	20.3
Household services	4.0	2.1	4.4	3.8
Total	100	100	100	100
Public	12.9	14.8	20.5	17.1
Private	33.0	33.8	48.7	41.0
Informal	53.7	51.4	30.7	41.8
Non-profit institutional	0.3	0	0.1	0.2
Total	100	100	100	100

Notes: extended definition of the labor force.

Table 2.3: Main Jobs of Male Workers in Dhaka

	Poor male workers (%)	All Male workers (%)
Messenger/office boy	4	3
Working proprietor/retail trade	10	15
Other sales workers	25	17
Latrine cleaner	4	2
Farmer & other agricultural activities	12	8
Rickshaw puller	10	5
Other transport workers	11	6
Production worker (except transport)	23	18
Miscellaneous	2	26
Total	100%	100%

Notes: extended definition of the labor force. Poor male workers coming from the deciles 1 to 3.

Employment options for poor female workers are even more limited. Given gender norms and lower education levels, women are excluded from a large range of sectors and occupations such as transport, services, and trade (Annex 2, Table A2.18). Poor female workers are over-represented in the agricultural sector and the household services, once Live-in Domestic workers of the better-off households were excluded (Box 2.1). The surprisingly strong importance of the agricultural sector (19 percent of the female labor force but 25 percent of the employment of the poor female workers) is both explained by the geographical contour of the sample and the fact that the extended definition of the labor force is used.¹⁷

Box 2.1: The “missing” women in the poor income groups

The analysis of female workers in Dhaka is constrained by a shortcoming in the data set. Live-in domestic workers are counted as a member of the household of their employers who tend to be in the upper deciles. They are therefore, not counted as members of the households where their families are, which are largely poor. This distorts data on the characteristics of female employment, the correlation of poverty and domestic work, and earnings among poor families. A number of studies show that most female workers hand over a large proportion –or even all-of their pay to the head of the family (Elson, 1999; Amin & *al.*, 1997; Ward & *al.*, 2004, Kabeer, 1991). According to Amin & *al.* (1997), female workers are strongly expected to contribute toward household expenses regardless of whether they live at home or independently. Yet this data does not appear to be captured in the income of poor households. Data on the destination of incomes of the gains of the live-in-domestics is not available in the LFS data set. Approximately 16 percent of child workers work as non-relatives in the better-off households and thus are misclassified.

A majority of poor female workers are employed in two types of jobs, as domestic workers (16 percent) and garment workers (32 percent) (Table 2.5). As discussed above, it is noteworthy that the share of live-in domestics amongst the poor income groups is probably highly underestimated as most of them are counted as members of the better-off households. If one assumes that all live-in maids would come from the three lower deciles, the share of maids among the poorest female workers would reach about 35 percent instead of 16 percent. Garment workers tend to come from the middle deciles (4 and 5), with the financial contribution to household income helping to escape extreme poverty.

Table 2.4: Sectoral distribution of female workers in Dhaka SMA by income group (in percentage)

Sector	Poor	Near Poor	Non-poor	Non-poor without non relative members	Total
Agriculture	25.1	21.6	14.1	18.9	19.0
Manufacturing	26.7	38.5	19.9	26.6	25.5
Trade	2.7	2.0	2.3	3.0	2.4
Community	23.1	18.2	28.8	38.4	25.0
Household services	19.2	16.2	30.6	7.4	24.3
Misc.	3.6	3.4	4.3	5.5	3.8
Total	100.00	100.00	100.00	100.00	100.00
Formal public sector	2.7	14.8	20.5	14.1	17.1
Formal private sector	22.7	33.7	48.7	32.3	41.0
Informal sector	53.7	51.4	30.7	53.2	41.8
Non institutional sector	0.3	0	0.1	0.3	0.1
Total	100.00	100.00	100.00	100.00	100.00

Source: LFS 2000.

Notes: Employed population, 10 years and over

Table 2.5: Main Jobs of Poor Female Workers

	Poor female workers	Near Poor female workers	Overall female workers
House maid and related housekeeping service worker	16%*	13%*	21%
Other service worker	9%	11%	7%
Agricultural worker	27%	21%	20%
Garment worker	32%	39%	28%
Other production worker	15%	12%	5%
Miscellaneous	1%	4%	7%
Total	100%	100%	100%

Notes: Employed population, 10 years and over

*Share of maids statistically under-estimated among the low income groups. See text.

C. Gender, employment and poverty

The entry to the labor force of women is associated with level of income, education, employment characteristics of men in the household, and the presence of children in the household. Approximately 30 percent of women in poor households work as compared with 23 percent in the wealthiest households. Given the lower participation and lower income levels than men, the financial contribution of earnings to the household are also particularly low. In Dhaka SMA, only 8 percent of total income is brought home by women.

Interestingly, the probit models showed that the employment characteristics of the head (male) or of the other men of the household play a part in the probability for a woman to enter the labor force with women more likely to work when there are males in the household who are un-or underemployed. Currently, married women are more likely to work than divorced women or widows. Married women are less likely to work as domestic workers - live-in or live-out.

Garment factories tend to employ young single women. Studies show that for a large proportion of young women the decision to enter into employment, was made by the parents (Amin & *al.* (1997, Zaman, 2001, Kibria, 2001). Garment work is also seen by women and their households as an alternative to early marriage as reported in Amin and *al.* (1997).

With regard to education, low levels of education of women among the poor are associated with a higher participation in the labor force. Women with an intermediate level of education (class 6 to 10) are more likely to work in the garment sector than to be non-workers. The lowest education levels are highly associated with the probability of being employed as a domestic worker.

The likelihood of entering the labor force drops when young children (under 5) are present in the household. This would indicate potential for increased labor force participation with adequate day care options for mothers with young children. In fact, the

probit models show that the presence of other women in the household explains the probability of female employment, particularly when considering the extended definition of the labor force.

D. Participation of children in the labor force

Approximately 20 percent of children between the ages 5-14 are found to be working.¹⁹ Most of the children workers are between 10 and 14 years old. Surprisingly, this proportion is similar for girls and boys (Annex 2, Table 2.21). Most boys are found in the trade sector and most girls in the household services. Manufacturing employed about 25 percent of all child workers (equal for boys and girls).

At first glance, the proportion of child workers seems to be almost the same across per-capita income deciles. This is linked to a measurement problem explained in Box 2.1.

Child workers are found to work around 34 hours per week (33 hours for the girls and 36 for the boys). However, there is a great heterogeneity within this variable. First, the younger workers - aged under 10 years old - work less than the older children, *i.e.* around 17 hours per week. Secondly, the working time is substantially higher for the children living with their employer as they were found to work, on average, 58 hours per week. This mainly affects girls that are live-in domestics.

Around one third of all child workers are paid with most of them 10 years old and above. The youngest children are very rarely paid. In the poorest households with child workers (the lowest two deciles) earnings from the child workers represent a significant contribution of one-third of the total income of the household.²⁰ On average, for all the deciles, the earnings of the children represent around 20 percent of household income within the households where there are paid children. The average monthly income of a paid child worker was Tk. 848 in Dhaka in 2000.

Probit models corroborate this relationship between the level of poverty of the household and the child labor (Annex 2, Table 2.22). Among the household characteristics playing a role in the decision to enter the labor force for the children, three variables stand out: the share of adult males in the household, the share of adult males un- or underemployed and the presence of very young children in the household. Children, particularly boys, are more likely to enter the labor force when the share of males over 15 years old is low or when the share of male over 15 years either underemployed or unemployed is high. In both cases, it seems that children enter the labor force because all other economic resources available in the household have already been used.

¹⁹ LFS 2000. These estimates are considerably different from those in the HIES 2000 data. In the HIES, only 5 percent of all children aged 5-14 were reported to be employed (urban and rural), and another 10 percent were looking for employment. This large discrepancy in participation rates may be due to differences in the definition of labor force participation in the two data sets. The LFS uses a more extended definition of the labor force than the HIES.

²⁰ On average, the earnings of the children represent only 2 percent of the total income of the whole households of Dhaka SMA.

E. Working hours and income

There is much variation in the number of hours worked and earnings among the poor (Table 2.6). For example, on average, a poor rickshaw *wallah* works 8 hours more than the "urban farmer" (about 55 hours / week *versus* 47 hours / week). The differential is far more striking for women. Female live-in domestic work 22 hours more per week than garment workers. Moreover, the remuneration of average live-in domestics is by far the lowest.

Monthly wages among the extreme poor rank from about Tk. 700 – for the live-in domestic-to about Tk. 2,800 – for the transport workers. By comparison, the average level of monthly wages in Dhaka is Tk. 4,159 for males and Tk. 1,600 for the females for all income groups. Regardless of the job, the remuneration of poor female workers is lower than that of poor male workers.

Table 2.6: Hours and Wages of the Poor, by Occupation and Gender

	Poor male workers			Poor female workers		
	Rickshaw Puller & other transport workers	Farmer	Vendor	Live-in domestics.*	Maid	Garment worker
Number of observations	111	70	136	98	38	79
Working time	54.9 h.	46.9 h	50.7 h	60.4h	43.5 h	38 h
Percentage of pop. working more than 60 hours per week	27%	19%	27%	45%	11%	11%
Monthly wage	Tk. 2,837	Tk. 2,120 **	Tk. 1,688	Tk. 703	Tk. 731 **	Tk. 1,125 **
Self net income	Tk. 2,126	Tk. 3,571 **	Tk. 2,730	-	-	-

Notes: *:Live-in domestics employed by the non-poor category

** : number of cases less than 50.

F. Un- and underemployment

Unemployment and underemployment are major problems for the poor.²¹ Unemployment is almost double that of the non-poor regardless of which definition is used ranging from 10-14 percent for the poor. Underemployment affects 20 percent of households (Table 2.7).

²¹ Standard unemployment is defined as the number of unemployed as a proportion of the total labor force. The "proposed" unemployment rate is the total unemployed (unemployed plus unpaid family workers) as a proportion of the total labor force. Underemployment is those working less than 35 hours per week, as a proportion of the employed labor force.

Table 2.7: Unemployment and Underemployment in Dhaka SMA by Income Group

	The poor	The precarious	The non-poor	Total
Unemployment rate	10.0%	8.1%	5.4%	7.4%
Unemployment rate proposed	14.3%	10.5%	7.9%	10.4%
Underemployment	21.2%	16.3%	12.7%	16.0%
Total un- & underemployed	29.1%	23.1%	17.4%	22.2%

Notes: this distribution does not take into account the problem of the live-in maids.

This is the case for both men and women. Unemployment affects about 9.5 percent of the poorest male workers *versus* around 5 percent of the wealthiest workers. For females, about 25 percent of the poor are unemployed compared to 12 percent for the non-poor.²² Underemployment affects almost half of poor women *versus* one-third of those who live in the upper deciles. As the live-in domestics work longer hours than the average, the fact of omitting them from the upper deciles tends to narrow the gap between the different income groups. If they were statistically reintroduced in their own households, the differences of rates of unemployment and underemployment across deciles might disappear in the female group.

IV. Prospects for Employment Generation and Policy Recommendations

The above analysis demonstrates a strong link between poverty and employment. It is widely accepted that high rates of productive and remunerative employment growth and high rates of economic growth contribute to poverty reduction.

In a labor-surplus economy like Bangladesh, accessing productive employment is one of the main routes to escaping poverty. In the case of Dhaka, the challenge is to create enough remunerative employment opportunities for all the new entrants and the unemployed in order to decrease poverty. Among the priority areas are: i) identifying new areas for employment generation; ii) improving the skills of workers; and iii) increasing access to credit to enable an expansion of self employment activities.

Different factors are likely to influence these priorities for Dhaka's labor market. On the supply side is the issue of migration, and the role of education. On the demand side, are the consequences of the Multi-Fiber Agreement (MFA) removal on the RMG sector, and opportunities for expansion of micro-credit in urban areas. These are discussed in detail below.

A. Trends and prospects on the supply side of Dhaka's labor market

i. Migration to Dhaka

The average annual growth rate of the urban population in Bangladesh was around 3.5 percent during the last decade (BBS, 2001). During the same period, the growth of the rural population was 1.5 percent per year. One could estimate that at the

²² Based on the proposed definition of unemployment.

current rate of urbanization, about one-third of the whole population will move to urban areas by 2010. As Dhaka is one of the main destinations for migrants, the city is projected to grow by 7 million people to 19.5 million in the next 10 years.²³

One of the main reasons for this dramatic growth is the constant influx of rural migrants. Previous estimates show that the rural-urban migration rate contributed between three-fifths to two-thirds of the urban growth rate in Bangladesh.²⁴ The rural to urban migration rate has not slowed down since the middle of the eighties reaching 4.9 percent during the eighties and 5.9 percent in the nineties.²⁵

A number of studies in Dhaka have found that when asking people why they migrated, the main reason was to find a job. This is consistent with the literature from other countries.²⁶ The principal “push” factor reported by migrants in Dhaka was insufficient job prospects in villages. At the same time, the perception of a high probability of getting a job and earning a higher income in urban areas are the main pull factors.

Other push factors include rural poverty, land erosion in their village, and perception of better education, health services, and social amenities in the City.²⁷ Many migrants interviewed in these studies report that they had nowhere to go after their land was destroyed by floods. In such conditions, Dhaka or other large cities are seen as possible places to try to earn a living.

“When my father left my family for good, we had no other option but to come to Dhaka and find ways to survive. In our village we do not have any work. I made the journey with my brother and my two sisters, because everyone said that Dhaka is like a paradise where everyone can find employment in the garment factories (...).” A garment worker in Dhaka, cited by Oxfam (2004).

The labor market in Dhaka versus rural areas. The comparison of wages and employment characteristics between the rural areas and Dhaka suggests a significant wage gap between urban and rural wages providing incentives to migrate (Table 2.8). Average wages are significantly higher in Dhaka and other cities than wages prevailing in the villages (LFS 2000).²⁸ This is true for all education levels, all sectors and both sexes. On average, accounting for differences in cost of living between the capital and the rest of the country, wages are approximately 40 percent higher in Dhaka and net self employment incomes are approximately 21 percent higher.

²³ COHRE and ACHR, 2000.

²⁴ UN, 1993

²⁵ According to the sample vital registration system, BBS. These figures do not include migration to foreign countries.

²⁶ According to recent surveys carried out in Bangladesh on this topic, (see Aparajeyo-Bangladesh, 2003; Hossain, 2001; Bhuyan & al., 2001; COHRE and ACHR, 2000).

²⁷ see Aparajeyo-Bangladesh, 2003; Hossain, 2001; Bhuyan & al., 2001; COHRE and ACHR, 2000).

²⁸ Cost of living differences are calculated using the Cost of Basic Needs (CBN) poverty lines, defined by geographic areas. Two corrections are made for comparison on wages and net self employment incomes. See Annex Tables A3.

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The wage differential is the highest for the most educated workers, and those who work in the construction, trade and finance sectors. The differential is more pronounced for female wage-earners than their male counterparts. By geographic area, differentials are greatest between Dhaka and the rural Rajshahi and Pabna areas, and substantial between Dhaka and other urban areas. For example, the differential between Dhaka and urban Chittagong for both wages and net self employment income is about 50 percent. Paradoxically, wage differentials are not very large for the manufacturing sector. Once differences in cost of living are taken into account, there is only an 11 percent differential for work in manufacturing in Dhaka as compared to rural areas.

Table 2.8: Comparison of Average Monthly Wages between Dhaka and Rural Areas in 2000 (in Taka)

	Dhaka (a)	Rural areas (b) Correction 1	Rural areas (b) Correction 2	Ratio (a/b) Correction 1	Ratio (a/b) Correction 2
Average monthly wage	3237	2490	2138	1.30	1.51
Average monthly wage by level of education					
No education	1323	1237	1071	1.07	1.24
Class I to V	1971	1849	1609	1.07	1.22
Class VI to X	2783	2605	2227	1.02	1.19
SSC-HSC	3964	4823	4127	0.78	0.91
Degree and above	7696	6276	5313	1.21	1.43
Average monthly wage by sector					
Agriculture	1768	1389	1208	*1.27	*1.46
Manufacturing	2329	2426	2100	0.96	1.11
Construction	6273	*2410	*2057	*2.60	*3.05
Trade	3000	*1950	*1676	*1.54	*1.79
Transport	3918	*3476	*2978	*1.13	*1.32
Finance	7270	4951	4266	1.47	1.70
Community services	4507	4442	3781	1.01	1.19
Household services	1370	1088	940	1.26	1.46
Average monthly wage by gender					
Male	4159	2891	2841	1.44	1.46
Female	1600	1181	1015	1.35	1.58

Source: Salmon, 2005, based on 2000 LFS.

Notes: Rural wages are corrected to account for cost of living differential between Dhaka and the rest of the country. Extended definition of the labor force. Employed population aged 10 years and over. Correction 1 accounts for both food and non-food items between Dhaka and other regions and may overestimate differences. Correction 2 accounts only for food items and may underestimate differences.

The gap between agricultural wages and industrial wages has been widening since the mid-eighties (BBS). The wage gap reached about 40 percent at the beginning of the

nineties *versus* almost 100 percent at the end of the nineties. This gap does not, however, necessarily reflect actual wages for new migrants coming to Dhaka. A large proportion of new migrants find employment in the informal sector, where wages are lower than in the formal industrial sector. Moreover, the cost of living is higher in the city than in the rural areas, which decreases purchasing power.

The perceived probability of getting a job in the city greatly affects the decision to migrate. Comparative data on unemployment and underemployment in Dhaka versus rural areas is mixed. Underemployment is far lower in Dhaka than in the rural areas (22 percent lower), and unemployment depends on which definition is used. Using the proposed unemployment rate (which includes the unpaid family workers), unemployment is lower in Dhaka (10.4 percent) than in rural areas (11.3 percent). The official unemployment rate shows the opposite - higher unemployment in Dhaka than in rural villages (7.4 percent versus 3.3 percent) - except for the highly educated.

Another issue is the reliability of the information on which prospective migrants are basing their decision. One study found that about 80 percent of migrants mentioned prior migrants as the principal source of information on the job prospects in the city. The remaining migrants had no explicit reason for assigning the probability of getting a job in the city²⁹ In practice, migrants' perception of the probability of getting a job in the cities was generally reported to be very optimistic compared to the actual experiences. About two-thirds of migrants reported that they had serious difficulties in finding a job after migration and that the process was particularly long.

There are possible explanations for the misperception of migrants' expectations with regard to finding jobs or wage levels. First, they view certain jobs as available and "well-paid", particularly in the garment industry and the public sector.³⁰ Second, studies have shown that there is a feeling among the rural population of an urban bias where urban areas benefit from priorities in terms of public expenditures, access to good jobs, amenities, etc.³¹

Consequences of rural-urban migration for the poor in Dhaka. The question of whether the rural-urban migration is beneficial or detrimental is a controversial issue in the literature. It can provide labor needed for urban industrial growth, contribute to urban services, and provide opportunities for many. Remittances sent to rural areas can also provide substantial assistance to families. On the other hand, it can drain rural areas of skilled individuals and the influx of migrants to cities, particularly at a rapid pace, can strain the urban infrastructure, environment and labor markets.

²⁹ Bhuyan & al (2001)

³⁰ The development of the RMG sector has played a very important part in the *economic* development of Dhaka but also in its *demographic* growth. The strong growth of Dhaka that has been observed this last decade is for a large part due to the dramatic growth of the RMG sector.

³¹ See Bhuyan & al, 2001 it is noteworthy that, before migration, around half the respondents report that they thought of a probability of between 0.5 and 0.75 of getting a job in the city. Given that the differentials of wages are particularly wide, the perceived employment opportunities remain high enough to push people to migrate (Bhuyan & al., 2001).

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Many migrants coming to Dhaka end up in slums where living conditions are particularly grim. New migrants cite a number of major drawbacks once they arrive to urban areas: overpopulation, polluted environment, lack of jobs, and deteriorating law and order (Bhuyan & *al*, 2001). However, in spite of these negative factors, migrants do not express a desire to go back to their villages in most surveys. In fact, evidence shows that, on average, after migration, monthly household expenditures of migrant households increased by 40 percent. (Bhuyan & *al*, 2001). This substantial increase in earnings seems to compensate for most of the drawbacks of life in Dhaka.

For city managers, the dramatic growth of Dhaka has generated a number of problems including providing adequate water-supply, sanitation and basic services, the management of garbage, the increasing risk of criminality and violence, and the deterioration of environmental conditions. To address the influx of migrants, the GOB has undertaken several policies such as forced evictions (discussed in Chapter 3) and the Ghore Fera (Back to home program). This program encourages people to return to their village by offering them loans for income generating activities in their village, and expenses for transportation and resettlement, though has not been considered very successful. As long as job prospects in cities look promising to the rural poor, many of those who can will continue to migrate.

ii. The role of education

Investments in human capital for the poor can play a major role in boosting economic development. The increase of human capital can raise the productivity of the poor and their income earning potential. While education levels in Dhaka are far better than in the rest of the country, the average level of education remains low compared with other developing countries. Literacy rates for workers aged 15 and older are only 52 percent among poor male workers and 33 percent for female workers. Moreover, vocational training is very limited, regardless of income group. Less than 10 percent of male workers and 6 percent of the female workers have received technical or a vocational training (Annex 2, Table A2.8).

Education costs can be prohibitive for the poorest. While most reports show that households - even poor households - demonstrate a strong willingness to send their children to school by investing huge sums in their education, the poorest of them are limited by financial constraints. Even though the government has the country-wide Compulsory Primary Education Program, and the Food-For-Education (FFE) program mainly in rural areas, education remains very expensive for a poor family - both in monetary terms and in terms of opportunity cost.

Vocational-technical training also remains very low relative to labor market needs. The quality of instruction is also cited to be low (Knowles, 2001). There are few linkages between the output of the system and the demand for trained manpower. Significant improvement in this type of education appears to be greatly needed,

particularly through the development of a private system of training and vocational education.³⁶

B. Trends and prospects on the demand side of Dhaka's labor market

The extent to which the growth of a sector contributes to employment generation can be analyzed through the employment elasticity of sectors. The estimate of output or value-added elasticity measures the responsiveness of employment with respect to a change in output or value-added. High employment elasticity in a sector usually means potential for job creation.

For the economy of Bangladesh as a whole, estimates of the employment elasticity with respect to sectoral growth show strong disparities among sectors. The service sector appears to be the most employment friendly with an elasticity over 1 (Table 5.4). The manufacturing sector is somewhat more controversial and is discussed below. Some of the discrepancies are due to data issues (Salmon, 2004).

i. Employment trends in the manufacturing sector

The manufacturing sector represents about 17 percent of the total labor force in Dhaka SMA, with the RMG sector accounting for 12 percent. Its development in terms of output or value-added is generally considered to be highly important to generating additional job opportunities in order to absorb the additional urban labor force.³⁷ A disaggregated analysis of the employment elasticity relative to value-added and output for 23 categories shows that the highest elasticities (higher than 0.75) included relatively low skilled industries such as textile industries, bricks, and ship breaking (Rahman & Islam, 2003). Among them is the Readymade Garment (RMG) industry – with an employment elasticity of 0.85 to 0.96 with respect to value-added.³²

ii. How does the RMG sector affect poverty?

Since the beginning of the eighties, the RMG sector has undergone considerable growth in terms of production, exports and employment. At the beginning of the 2000's, the sector provided 76 percent of Bangladesh's foreign earnings.³³ RMGs employed about 200,000 workers in 1985 which grew to approximately 2 million in 2003. Much of this job growth has been in Dhaka, which now employs about one-fourth of all garment workers.

Most garment workers are women (approximately 90 percent), who support an estimated 10 million dependents (Ward, 2004). Moreover, related service activities are estimated to employ another 2 to 5 million people depending on the source (Ward, 2004; Ahmed and Sattar, 2004).

³²Rahman & Islam (2003) for period 1980-1998

³³ On about 3,600 factories that operate in Bangladesh, some 800-900 engage in direct exports, while the remainder works on subcontracts (Ward, 2004).

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At a microeconomic level, there are a number of studies showing improvements in living conditions for females who have entered into the garment sector (Kabeer, 1991; Amin & al, 1997). Working in a garment factory is seen by thousands of rural women as a way to escape extreme poverty (Kibria, 2001). Women in poor urban households report that garment employment is perceived as a good opportunity compared with other types of unskilled employment available to women with low levels of education in urban areas (such as domestic work). The financial contribution of Dhaka's garment workers accounts for one-third of their family income (LFS, 2000). Wages are, on average, significantly higher than in the other sectors offered to women. Several studies have also found that the development of the garment sector has played a significant role in contributing to the empowerment of women, particularly among the poorest of them (Kabeer, 1991; Amin & al, 1997).

Despite the positive benefits of the RMG sector, recent growth and prospects for future development are less encouraging. Performance over the past few years has demonstrated that Bangladesh's garment sector was highly dependent and, thus, vulnerable to external shocks such as international events and changes in trade agreements. This industry, seasonal by nature, has become increasingly irregular in terms of employment since 2001. In August 2001, a few months after the U.S Trade Development Act-2000 became effective (which gave duty-free access and trade preference to African and Caribbean countries), more than half of the Bangladeshi factories reported to have no orders. After September 11, 2001, orders declined rapidly so that by December 2001, it was estimated that nearly 1,300 factories closed and 400,000 women lost their jobs (Ward, 2004). A number of studies have focused on the effects of closures of garment factories finding it was extremely difficult for these women to find another job given the lack of other job opportunities in Dhaka (Shefali, 2002).

Additionally, external competition has increased since the entry of China in the WTO and the end of the MFA (Multi-Fiber Agreement) in December 2004. The MFA had provided Bangladesh with a guaranteed market in North America under the quota regime. At the end of 2004, all quota restrictions were abolished.

It is difficult to quantify the impact of the many factors that the phase out of the MFA will have on employment in the RMG sector (Box 2.2). In fact, the reduction of RMG exports is anticipated to affect all the households through the depreciation of the real exchange required to offset the decline in export earnings and through the overall reduction in labor demand (Arndt, & al, 2002).

A general equilibrium model of the Global Trade Analysis Project estimates that the decrease of garment production could reach more than 10 percent.³⁴ This then would translate to a decrease in direct employment by about 5 percent, and indirect employment of another 5 percent. Other simulations predict a 25 percent decline in RMG export (excluding knitwear) leading to a 6 percent decrease in wage payments to unskilled

³⁴ See <https://www.gtap.agecon.purdue.edu/resources/default.asp>

female labor in non-agriculture (Arndt & al, 2002). Regardless of which estimate, the losses will hit the poor working in this sector the hardest.

A large part of the job creation in the urban labor market is linked to the RMG sector. Given the termination of the MFA, Bangladesh will have to invest in making this sector sufficiently competitive to keep its market shares. This necessitates large investments to improve product quality, increase efficiency, modernize technology, and ensure that products are competitively priced (WTO, 2000). However, to meet these investment needs, it is unclear if Bangladeshi entrepreneurs will have the managerial and risk-taking capacity to handle such a level of investment (Sobhan, 2002). This will require involvement of financial institutions.

With regard to the labor force, these investments are also likely to imply an improvement of average skills, which would necessitate the strengthening of the education system and training.

*Box 2.2: Post MFA and entry of China in the WTO, their impact on the poor in Dhaka?
A summary of the literature*

The post-MFA situation is still evolving though it is clear that these changes will likely have an adverse impact on Bangladesh in general, and particularly on Dhaka. A summary of the literature points to the following strengths and weaknesses of the Bangladeshi garment sector.³⁵

Favorable characteristics:

-Bangladesh has a dynamic entrepreneurship, a cheap and skilled labor force. Bangladesh has a considerable comparative advantage in the price of its manpower. Its labor cost in spinning and weaving is only 3 percent of that of the United States. Moreover, given different trade arrangements (but also a certain heterogeneity in the quality) the price of a shirt exported from Bangladesh to the EU is 2.9 euros *versus* 5.9 euros for export from China.³⁶ (Annex 2, Table A2.31)

-Bangladesh has improved the quality of its products since the mid-eighties (Dowlah, 1999).

-Bangladesh has demonstrated a significant improvement in its "Revealed Comparative Advantage" (RCA) in the nineties in all garment products, except for non-

³⁵ Also see *End of MFA Quotas, Key Issues and Strategic Options for Bangladesh Readymade Garment Industry*, 2006, World Bank Report No. 34964.

³⁶ The literature has taken different approaches in dealing with the question of market shares. The most frequent approach has been the application of General Equilibrium Models, mainly through Global Trade Analysis Project (GTAP) either to simulate the impact of the China's entry into the WTO on developing countries (Gilbert and Wahl, 2000, Morrison, 2001 for a summary of CGE-based models and references) or to simulate the impact of MFA quota removal (see Walkenhorst, 2003 for a survey of quantitative studies).

knit men's outwear (Shafaeddin, 2004)³⁷. Much of this is attributed to a lack of diversification and special agreements with the EU and the US.

-Bangladesh has reduced its original dependence on imports for its intermediate inputs. Although local net export earnings retained within the country from the RMG sector were only 23 percent of gross exports at the beginning of the 1990's, and reached 37 percent in 2000.

Less favorable characteristics:

-The performance of the Bangladeshi RMG sector has strongly depended on favorable trade agreements. The Bangladeshi exports to the EU have benefited from both GSP arrangements and the Lamy EBA agreement which permitted duty free access.³⁸ Bangladesh has also benefited from large quota allotments with the U.S.

-Current rules of origin requirements penalize clothing producers of Bangladesh. For a T-shirt to originate in Bangladesh under the EU's rules, it must either have undergone two stages of transformation there (from yarn to fabrics, and fabrics to clothing), or have used fabrics from other South Asian countries and added more value in Bangladesh than in any other contributing country (Oxfam, 2004). In reality, the usual value added at the assembly stage performed in Bangladesh only reaches 25-35 percent, which is low. Moreover, due to the weakness of indigenous cotton crop and underdeveloped capacity in spinning and weaving, Bangladesh uses fabric inputs from other developing countries.

-As export quotas are less restrictive for Bangladesh than for China and India, Bangladesh will face comparatively greater competition from China and India under a quota free regime (Islam, 2001 and Lips & al., 2003).³⁹ Bangladesh has free access to one of its most important export markets (the EU), thus further trade liberalization will worsen the Bangladeshi positions with respect to its competitors. In importing countries, a phase-out of export quotas will likely result in a drop in the prices of apparel from India and China more than that from Bangladesh.

-Bangladesh's competitors also have low hourly wages. China, India, Pakistan, Sri Lanka and Indonesia also have low labor costs in the clothing industry (Table A2.31).

-Bangladesh and China have a very similar export structure (Shafaeddin, 2004). This creates high competition, particularly in outer garments. (Annex 2, Table A2.31)

-Bangladesh suffers from the weakness of its backward linkages. Bangladesh still imports the majority of yarn and textile necessary to the garment industry. This implies very long lead times (120-150 days, in comparison with 12 days in India). Moreover, after the end of the MFA, prices of yarn and textiles may increase for Bangladesh if exporting countries redirect these products to their own garment industries.

-Bangladesh garment sector suffers from internal problems, such as inadequate infrastructure, and unreliable energy supplies, which contribute to high costs.

³⁷ RCA is defined as the share of a specific product in total exports of a country relative to the share of the same product in world trade. A ratio exceeding unity indicates that the country has a comparative advantage in that product.

³⁸ The Everything But Arms (EBA) Initiative eliminated quotas and tariffs on all imports into the EU from the 49 least developed countries, with the exception of arms and munitions. EBA became effective in March 2001.

³⁹ Quotas are also less restrictive for Pakistan and Nepal.

iii. Development of Self Employment through Micro-credit

Previous sections have shown that in Dhaka about 33 percent of the labor force is self-employed. Most of them are men. (40 percent are men versus 16 percent women). This would indicate substantial demand for microcredit. There is also supporting literature on the positive impacts of micro-finance on poverty reduction. (Khandker, 2003)

It is estimated that some 19.3 million individuals received help from various micro-finance programs in 2004.⁴⁰ Much of the micro lending is done through four NGOs, Grameen Bank, BRAC, ASA and Proshika, which accounted for approximately 86 percent of micro-finance lending. Most micro-credit recipients are women (about 90 percent of borrowers), and live in rural areas (about 90 percent). It is only recently that the major micro-finance providers have begun to target the urban poor (e.g., BRAC, Proshika, ASA), and the coverage is still low. Grameen Bank continues its focus in rural areas.

Bangladesh has a relatively positive experience with microfinance in rural areas and is known globally for its successes. This has not, however, reached the same coverage in Dhaka and other urban areas. In the context of rapid urbanization, there appears to be substantial scope for reaching the urban poor including youth who may have difficulties entering the labor market.

V. Improving income earning opportunities for the poor

While rural migrants continue to come to Dhaka in search of employment, finding remunerative employment is a major challenge for the poor. Jobs tend to be low paying, and do not provide much security. To cope, additional household members, particularly women and children, enter the labor market to earn what they can. The prevalence of child labor is found to be particularly high amongst the poorest households.

Recent trends have shown that the growth of Dhaka's labor force is far from tapering off given the high rate of rural-urban migration. Simultaneously, the development of one of the main formal employment providers of Dhaka – the garment sector - is jeopardized by the MFA removal. In this context, the balance of Dhaka's labor market strongly depends on policy measures taken on the national scale. Among these are:

Implementing policies to encourage growth through diversifying manufacturing beyond the RMG sector. Some of the areas that hold potential for strengthening Dhaka's labor market include food processing, assembly industries such as electronic goods, toys, construction, etc. and in the services sector, the development of data processing and telecommunication both for domestic and export markets.

⁴⁰ *The Economics and Governance of NGOs in Bangladesh*, 2005, World Bank.

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Investing in infrastructure. Firms in Dhaka and Chittagong interviewed in a recent investment climate survey rank electricity supply as a major battlement to doing business and to growth.⁴¹ Poor water supply and traffic congestion are also major constraints to growth in Dhaka. In addition, access to land was also mentioned as a severe expansion bottleneck for 40 percent of firms interviewed in Dhaka (see Chapter 3). There are signs of some firms moving outside of Dhaka which has the potential for addressing the land constraint, though such a transition on a larger scale will be dependent on adequate infrastructure and the availability of skilled labor.

Improving skills of workers. There is substantial international evidence that investments in education and training can raise productivity and increase the income earning potential of the poor. Education levels for the urban poor remain low relative to other countries, and thus providing affordable options could have huge benefits.

Increasing access to credit. On a smaller scale, the expansion of the access to credit by poor urban households should also be an important policy focus. Many NGOs and Micro Finance Institutions in Bangladesh have extensive experience in rural areas which could be implemented in Dhaka and other urban areas. This could play a significant role in financing employment creation by new micro-enterprises and in helping the urban poor to develop new income generating opportunities.

Expanding access to child care programs. There is also potential scope for facilitating increases in female labor force participation through access to child care. Evidence from other countries has shown that access to child care through NGO or Government facilities can allow women the flexibility to enter the labor market, ultimately increasing household income.

⁴¹ See Lall, 2005. The Survey was carried out by the Bangladesh Enterprise Institute and contains 1001 firms in Dhaka and Chittagong.