

CHAPTER 3: THE LABOR MARKET - TRENDS, CHARACTERISTICS AND CHALLENGES

I. Introduction

3.1. ***Labor it is often said is Bangladesh's most precious resource.*** This precious resource, under the right conditions, has the potential to unleash a rapid transition toward prosperity, as the East Asian economies have shown without having the benefit of a natural resource bounty. A relative abundance of labor provides Bangladesh with a comparative advantage in production of labor-intensive goods. Of course, global comparative advantage does not automatically translate into global competitiveness, which depends on a host of factors that affect productivity. Productivity in Bangladesh does suffer from a number of problems that are highlighted in the other chapters of this report. Are there inefficiencies in the labor market itself which undercut overall productivity of the economy? This chapter assesses the key labor market trends and characteristics in seeking to answer this.

3.2. ***Creating productive employment opportunities for a rapidly growing labor force clearly is a major challenge for the Bangladeshi economy.*** Its substantial labor force of about 50 million is growing at a rapid 3 percent per year – adding just under 2 million workers each year.⁴⁸ The rapid labor force growth derives from two main sources: the demographic transition which is resulting in a surge of youthful entrants into the labor market, and; the sharp increase in female labor force participation since the mid-1990s. Expectedly, given Bangladesh's low development level, almost half the labor force is still in the agriculture sector and three-quarters are in rural areas. At the same time, the labor force appears to be in the midst of transitioning from rural to urban areas, consistent with the overall economic shift that is discussed in **Chapter 5**, and from agriculture to rural non-farm activities.

3.3. ***Despite the considerable pressures, labor market outcomes have been generally favorable.*** For one, most new entrants between 2000 and 2003 (the years in which the latest available Labor Force Surveys were conducted) were able to find a job, keeping the unemployment rate at about 4 percent. However, this is slightly tempered by the fact that the entrants were partially accommodated by sharing some of the existing jobs, as indicated by a decline in the average hours worked per week per worker in all economic sectors during 2000-03. Rising real wages across the major economic sectors provide further evidence of labor market tightening despite the rapidly growing labor supply.

3.4. ***At the same time though, some important aspects of the labor market deserve closer attention.*** The *unemployment* rate is 8 percent for the 20-24 year olds and even higher for those with higher secondary or degree education. The income levels of the self-employed workers (who account for almost half the workforce) appear to have declined over the 2000-03 period. Furthermore, the formal sector comprises only about a fifth of the labor force (although this ratio is higher than in India) and shows no signs of picking up – in fact, data for the 2000-2003 period show a decline in the formal sector's share. The share of “unpaid family workers” in the workforce increased over the 2000-03 period, at the expense of all other job statuses except “employers”.

3.5. ***A particular concern afflicting the labor market is acute skills shortages.*** Not only are the education levels among the workforce low, the education and vocational training system are not geared toward the market needs. On average, the employed labor force has only 4 years of schooling. It is a major loss to productivity when even this scarce human capital is not properly utilized, as highlighted by the fact that almost one-fourth of the unemployed hold a SSC, HSC or higher degree. Furthermore, just over 1 percent of the labor force has had technical training or vocational education, and even among those

⁴⁸ The 2002-03 Labor Force Survey (LFS) estimated the labor force size at 46 million. It also estimated the annual increase in labor force at over 1.5 million, which would imply a labor force of over 50 million today.

Bangladesh: Strategy for Sustained Growth

the relevance of their skills is questionable. The low quality of the vocational education and training (VET) system is reflected by its low capacity utilization and pass rates and also by the weak demand for its graduates. A tracer study shows that less than 10 percent of VET graduates were employed over two years after the survey, while close to half the graduates took at least a year to find a job, and this in an economy where skills are deemed to be acute shortage. Not only that, wages of VET graduates apparently are lower than those of graduates from the general education system.⁴⁹

3.6. Other key identifiable distortions in the labor market include:

- ***There is a clear segmentation of the public and private job markets*** – this is apparent in the considerable wage premium (over 30 percent) for public jobs, after taking into account worker characteristics such as education, skill, gender, etc. Analyses have shown the disparity to be sharper at the lower-end (classes III and IV) public sector jobs. Not only does this lead to rationing of the high premium public sector jobs, it also distorts wage signals across the economy.
- ***Another segmentation is between urban and rural areas***: Econometric analysis in this chapter shows that urban areas provide more employment opportunities (more hours of employment) and a significant wage premium. The barriers to rural-urban mobility of labor – that would also be productivity improving – likely have to do with the shanty living conditions in the cities, especially for fresh migrants and the poor, and the higher cost of living. An urban agenda of the sort discussed in **Chapter 5** would work to improve this.
- ***Female workers continue to face considerable barriers***. Improvements notwithstanding, only a quarter of working-age females participate in the labor force and wages for female workers are significantly lower than for male workers with similar characteristics. This emanates mostly from the social barriers commonly seen in developing countries, but it is hard to imagine a path of rapid development, if three-quarters of females are not there to participate in and shape it. The solutions of more education and female empowerment are happening but could be speeded up.

3.7. ***On balance, labor laws and regulations do not appear to be serious hindrances to the functioning of the labor market, although worker rights need better protection.*** Laws and rules are relatively light and, if anything, suffer from ineffective enforcement – certainly there are no signs of the draconian labor regulations seen in India. Overall, firms retain considerable flexibility to hire and fire, as confirmed by the *Investment Climate Assessment* and *Doing Business* survey results. At the same time though, lack of organized union activity in the formal private sector, where only about one worker in twenty is covered, also has its down sides, especially since it arises from government restrictions which the ILO's Committee of Experts on the Application of Conventions and Recommendations has deemed excessively restrictive. Such limited union activity handicaps workers' ability to engage in collective bargaining and protect their rights, and hinders the formation of an effective mechanism to resolve labor disputes. The recent impasse in the RMG sector over worker demands for higher minimum wages highlights the costs of the latter problem. It is not clear though whether the resolution to this is government intervention and, if at all, in what shape and form.

II. Labor Market Trends in Bangladesh

Long-term Demographic Trends: Transition to a Younger, More Gender-Balanced, and More Urbanized Population

3.8. ***Bangladesh's population has almost tripled since 1960 – increasing from 52 million inhabitants to over 140 million.*** Female population has grown faster than male population, reflecting the impressive underlying improvements in gender parity, with the share of female population in total

⁴⁹ *The Bangladesh Vocational Education and Training System: An Assessment*, World Bank, 2006.

population increasing from 47 percent in 1960 to 49 percent in 2005, slightly higher than in India and Pakistan. Bangladesh has experience the biggest increase in the ratio in the South Asia region since 1960 (Table 3.1). This is an impressive, if somewhat underreported, achievement that benefits from increasing empowerment of females in the social sphere – female primary enrollment rates are higher than male enrollment rates, for example. The rapid urbanization of the population is discussed in Chapter 5.

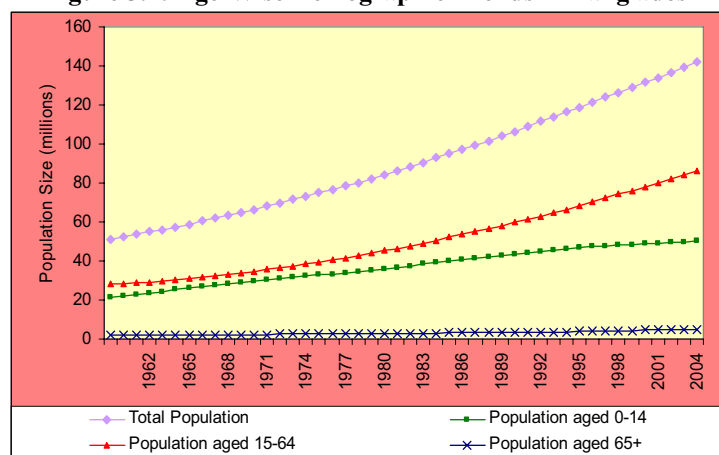
Table 3.1: Ratio of Female Population to Total Population

	1960	1970	1980	1990	2000	2004
Bangladesh	47.3	47.9	48.2	48.5	48.8	48.9
India	48.4	48.3	48.2	48.4	48.6	48.7
Nepal	49.8	49.8	49.5	49.6	50.3	50.4
Pakistan	47.8	48.1	48.3	48.4	48.5	48.5
Sri Lanka	47.7	48.1	48.5	48.8	49.1	49.2

Source: World Development Indicators, World Bank

3.9. *The growth of the working-age population has outpaced that of the population as a whole.* While total population has increased by about 70 percent between 1980-2005, working-age population (those in the 15-64 age group) practically doubled – increasing from 44 million in 1980 to 86 million in 2005. Demographic factors such as increased life expectancy and markedly lower infant mortality have offset the slowdown in population growth (from 2.5 percent in the 1980s to about 1.5 percent), resulting in working-age population growth remaining largely unchanged at about 3 percent per annum.⁵⁰ Under-5 mortality rates fell from 205 per 1,000 live births in 1980 to 77 in 2004; one of the fastest rates of decline in the developing world.⁵¹ Life expectancy at birth increased from 49 years to 64 years over the same period. The labor dividends from the ongoing demographic transition are expected to continue for a considerable, although at a declining rate. The growth rate of working-age population is expected to slow down to 2 percent a year in the coming years. Still, more than one-third of the population is currently under the working age, a sizable pool to feed robust labor supply growth. Under certain baseline assumptions, the working-age population is expected to increase by 65 percent by the year 2040.⁵²

Figure 3.1: Age-Wise Demographic Trends in Bangladesh



Source: World Development Indicators, World Bank

⁵⁰ Working-age population estimates vary by source. While the World Bank’s WDI data show average 2.7% growth during the 1990s (virtually the same as in the 1980s), the ILO and the US Census Bureau each report the growth rate at about 3.4 percent, about one percentage point higher than the average growth reported by the ILO for the 1980s.

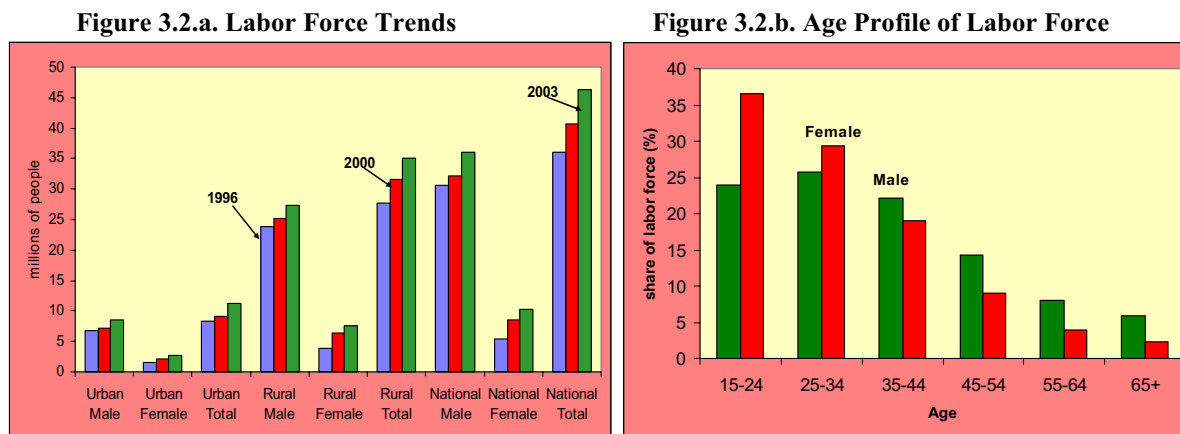
⁵¹ Even so, Bangladesh still has long ways to go. Just to meet its MDG, Bangladesh needs to lower the U-5 mortality rate to 48 by 2015. After that a target rate of 15 – the current rate of Sri Lanka – or less can be set.

⁵² The precise demographic assumptions – regarding birth and death rates, population growth, fertility rates, infant and child mortality, and life expectancy – can be found in the World Bank’s SIMA database.

Labor Force and Employment Trends

A rapidly growing labor force

3.10. *The 2003 LFS estimated the size of the economically active population, or the labor force, to be 46.3 million – or about 57 percent of the working-age population (Figure 3.2.a).*⁵³ Reflecting the predominantly rural population in Bangladesh, 76 percent of the labor force resided in rural areas. The female labor force was estimated at about 10 million, or 22 percent of the total labor force. Consistent with the demographic trends, survey results showed the labor force to be quite young, with over half the workers falling in the 15-34 age group (**Figure 3.2.b**).



Source: Bangladesh Labor Force Surveys (various years)

3.11. *The labor force has grown at a fast pace, reflecting both the rapidly increasing working-age population and, more recently, sharp increases in the female labor force participation rate (LFPR).* As the working-age population increased by over 11 million between 1996-2003,⁵⁴ the labor force increased by over 10 million (**Figure 3.2.a**); 4.6 million between 1996-2000 and another 5.6 million between 2000-2003, with average annual labor force growth of 3.6 percent over the 1996-2003 period. Consistent with the overall population patterns, the labor force is also becoming increasingly urbanized – urban labor force’s share in total increased from 23 percent to 24.5 percent over 1996-2003.

3.12. *The female labor force almost doubled in size between 1996-2003 to 10 million, while the male labor force grew by just 17 percent.* The female labor force grew at an astounding annual rate of 14 percent over 1996-2000, which then slowed down a bit but still remained high at 7 percent during the 2000-2003 period. The LFPR increased sharply for females in urban and rural areas, and in both areas the increase was more pronounced in the 1996-2000 period than the 2000-2003 period (**Figure 3.3.a**). Almost 4 million additional female workers entered the labor force during 1996-2003 due to the increase in the female LFPR alone. Nonetheless, because of the low starting base, the female labor force remains less than a third of the male labor force of 36 million. In the meanwhile, the male LFPR remained virtually unchanged over 1996-2003.

⁵³ The LFS also counts those aged 65+ years as being part of the labor force. This group, with 2.3 million persons, comprises just 5% of the total labor force though.

⁵⁴ The increase in the population aged 15+ during the 1996-2003 period was 11 million as per the LFS and 15 million as per the World Development Indicators.

Figure 3.3.a Changes in LFPR Over Time

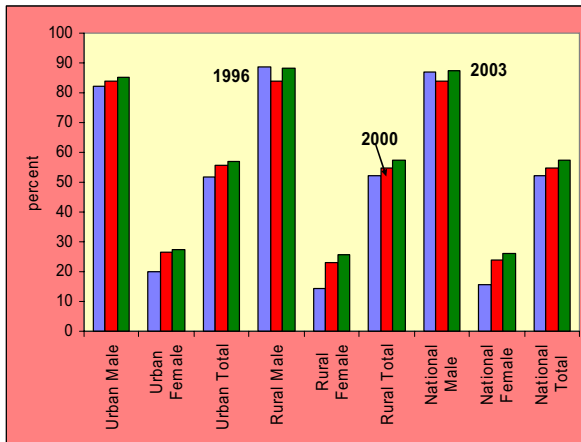
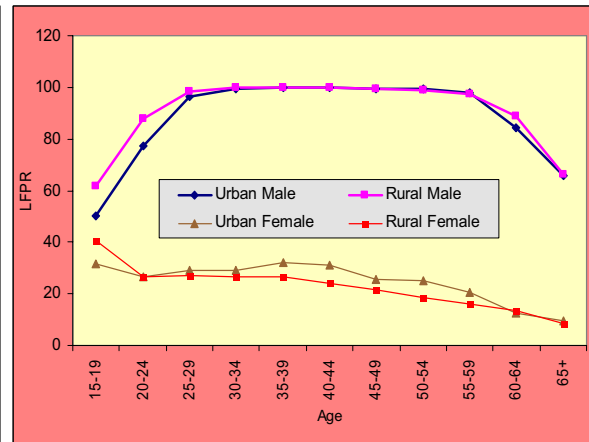


Figure 3.3.b: Age-LFPR Relationship



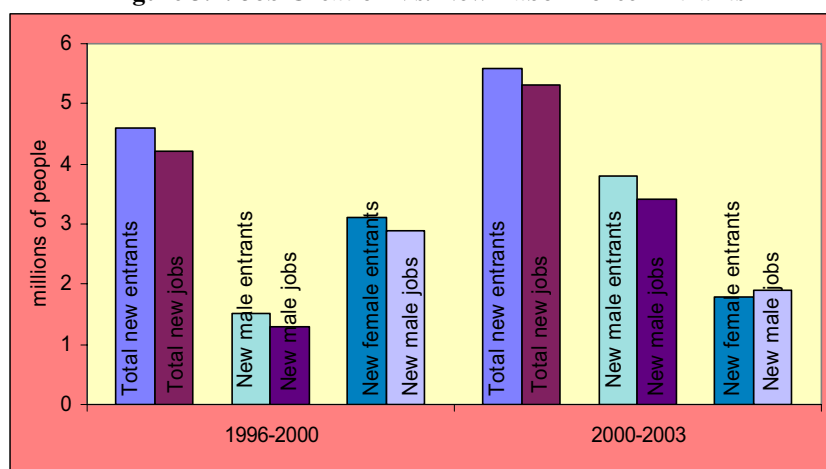
Source: Bangladesh Labor Force Surveys (various years)

3.13. *The age patterns of LFPRs differ considerably between male and female workers (Figure 3.3.b).* The male age-LFPR relationship has an inverse-U shaped pattern. The youngest and oldest male workers have the lowest LFPR. LFPR for males in the 30-54 age group was close to 100 percent and over 97 percent for the 55-59 age group. Two-third of males work even after the age of 64. LFPR for those in the 15-19 year age-group was only 50 percent, reflecting in part school enrolment. The LFPR pattern is almost identical for rural and urban males, with the LFPR of urban youth being lower, reflecting differences in school enrolment. The age-LFPR relationship for female workers shows a different pattern and also some urban-rural variation. For one, the female LFPR is significantly lower than the male LFPR for all age groups. The urban female LFPRs are higher for all age groups except the 15-19 age group, as girls in urban areas are more likely to be enrolled in school. LFPRs for both rural and urban females drop precipitously from the 15-19 age group to 20-24 age group, from about a third for urban females and 40 percent for rural females to around one-quarter for both, most likely because of marriage. For rural females, the LFPR then remains virtually constant till age 39, while for urban females it increases a bit in that interval. The LFPRs for both groups decline from the 40-44 age group onward.

Employment and underemployment trends

3.14. *The Bangladeshi economy added 5.3 million (9.5 million) new jobs over the 2000-2003 (1996-2003) period.* This is a sizable number, although it still falls short of the 5.6 million (10.2 million) new entrants into the labor force. As seen in **Figure 3.4**, new jobs for females kept pace with the increase in female entrants in the labor force during the 2000-2003 period, whereas half-a-million new male entrants into the labor force were not accommodated. A further breakdown reveals that 2 million new jobs were created in urban areas, where the labor force increased by 2.1 million, while 3.3 million new jobs were created in the rural areas, where the labor force increased by 3.5 million.

Figure 3.4: Job Creation Vs. New Labor Force Entrants



Source: Bangladesh Labor Force Surveys and World Bank Staff calculations

3.15. *Unemployment rates in Bangladesh, as in the majority of the LICs, have been consistently low.* Standard definitions of unemployment consider any person of age 15 years or above as unemployed if he or she did not work at all during the preceding week of the survey and was actively looking for work. As per this definition, 2 million persons, or 4.3 percent of the labor force, were unemployed in 2003 (Table 3.2). The unemployment rate increases with the education levels of the labor force, reflecting the fact that the more educated workers have higher reservation wages and are less willing to compromise on the quality of the job they accept. Also, those who go for higher studies often come from more well-off backgrounds and can afford to hold-off working longer. At 8.3 percent, the unemployment rate was the highest among the 20-24 age group.

Table 3.2: Unemployment rate among labor force by level of education and sex

	Bangladesh			Urban			Rural		
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female
	Per cent								
Total	4.3	4.2	4.9	5.0	4.6	6.2	4.1	4.0	4.4
No education	3.4	3.4	3.6	3.2	3.1	3.5	3.5	3.4	3.6
Class I-V	3.3	3.1	4.3	3.3	2.9	4.5	3.4	3.1	4.2
Class VI-VIII	3.9	3.8	4.3	4.3	3.9	5.6	3.8	3.8	3.7
Class IX-X	5.6	5.7	5.2	6.2	6.3	6.0	5.3	5.4	4.8
SSC, HSC & equivalent	7.8	7.0	11.7	8.7	7.7	12.9	7.2	6.6	10.7
Degree & above	9.5	8.1	17.4	7.7	6.2	14.7	12.0	10.6	22.8
Others	9.6	8.9	15.7	9.0	5.7	31.2	10.0	11.0	0.0

Source: Bangladesh Labor Force Surveys (various years)

3.16. *The open unemployment estimates based on the standard definition of unemployment besides being exceptionally low do not change much over time and as such are not very informative.* By focusing on only those who did not work at all, the unemployment indicator misses the inefficiencies in the labor market that affect the majority of the labor force who are looking for more substantial work hours. For this reason, the underemployment rate is considered a more meaningful indicator of the labor market condition.

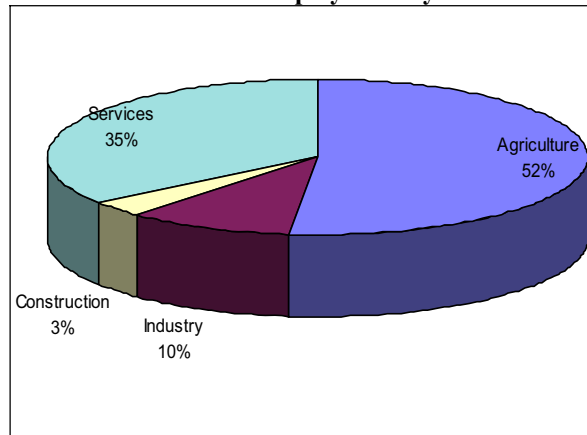
3.17. *Unfortunately, data quality and definitional problems preclude a meaningful assessment of the underemployment trends in Bangladesh.* The LFS considers as underemployed anyone who is part of the labor force but did not work for at least 35 hours a week, *regardless of whether or not the person was willing to work for 35 hours or more.* Furthermore, comparability between the 2000 and the 2003 surveys is rendered difficult by the fact that while the former was conducted on a rotating basis covering the entire year, the latter was conducted only during the months of October and November – a slack period for agriculture, which would result in overestimation of underemployment. Therefore, even though the 2003 LFS reports an increase in underemployment over the 2000-03 period, from 16.6 percent in 2000 to 37.6 percent in 2003, it is not at all clear whether this reflects actual increase rather the seasonality in data collection and/or the fact that female workers – who are increasing their share in the labor force – often tend not to look for full-time work to balance competing work pressures at home.

III. Employed Labor Force Characteristics

Sector composition of the employed labor force

3.18. *The agriculture sector has the highest share of the employed labor force, as in other most other low-income economies.* In 2003, despite accounting for just 21 percent of GDP, agriculture sector accounted for 52 percent of the labor force, up from 49 percent in 1996 (**Figure 3.5**). The increase in agriculture’s share over 1996-2003, as suggested by the LFS results, is counter-intuitive though as it came at a time when agriculture’s share in GDP fell from 25 percent to 21 percent. It is also in sharp contrast with recent analytical work (based on a separate survey of rural population) that shows a rising role of non-farm activities in rural employment.⁵⁵ On balance, the evidence is more compelling that the employment share of agriculture has been declining over time, as would be expected from the sector’s diminishing role in the overall economy.

Figure 3.5: Distribution of employment by broad sector: 2003



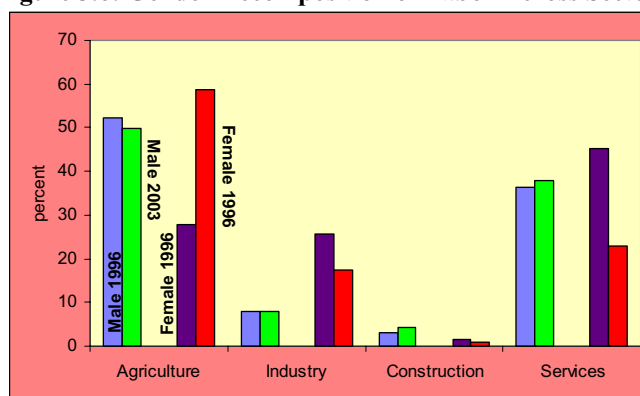
Source: Bangladesh Labor Force Surveys and World bank Staff calculations

3.19. *Gender decomposition of labor across sectors provides additional insight into the sectoral mobility of labor.* Almost 90 percent of the male workers are either in agriculture (50 percent) or services (38 percent): the share of male workers in industry (manufacturing and mining) and construction, which combine for a quarter of the GDP, is thus only about one-tenth. Their share in agriculture declined over the 1996-2003 period (**Figure 3.6**), while the share of the female workers increased substantially – from 28 percent in 1996 to 59 percent in 2003. Again, these trends derived from the LFSs are likely overstating the increasing trends of female participation in agriculture. Nonetheless, these trends may well be highlighting the lower mobility of female labor out of agriculture than of male labor. That would

⁵⁵ Mahabub Hossain (2004).

suggest that the positive aspect of increasing female labor force participation is, at least partially, being offset by the fact that their entrance is mostly in the agriculture sector (including livestock production), which is not only the least productive and remunerative sector in the economy but in which women’s involvement usually takes the form of unpaid family work which does not give them direct access to income and may not be a particularly effective means of empowerment.

Figure 3.6: Gender Decomposition of Labor Across Sectors



Source: Bangladesh Labor Force Surveys (various years)

3.20. A more detailed breakdown of the labor force by industry (4 digit BSIC level) is shown in **Annex Table 3.3**. After agriculture, wholesale and retail trade is the next most significant category, employing about 14 percent of the labor force, while manufacturing accounts for one-tenth. There are some interesting gender and urban-rural difference within these two categories. Wholesale and retail account for 21 percent of the workers in urban areas, which is twice the category’s share in rural areas. It also accounts for 26 percent of urban male workers and 14 percent of rural male workers, which, in each case, is about eight times the category’s share of female employment. It is quite telling that, despite the significant decline, manufacturing sector’s share of female employment – in both urban and rural areas – is more than twice its share of male workers. For the urban sector at least, this in large part reflects opportunities for female workers in garments manufacturing. Female participation in rural manufacturing deserves more analysis.

Status of employment

3.21. *The self-employed workers constitute the largest group, by far, of any employment status category (Table 3.3), accounting for 45 percent of the employed labor force.*⁵⁶ This is true not only for rural areas where family based subsistence agriculture has been traditionally the main economic activity but also for urban areas where it is likely being driven by the large share of male employment in wholesale and retail trade. Another 18 percent classify as *unpaid family workers*: thus family or own source of employment contributes about two-third of the labor force. The breakdown by gender for these two categories is informative. Almost half the male workers classify as *self-employed* whereas only a quarter of female workers do. On the other hand, almost half the female workers classify as *unpaid family workers*, which is up from 19 percent in 1996 (**Annex Table 3.5**), while only one-tenth of male workers do. Among the 34 percent who classify as hired workers, *employees* are more common in urban

⁵⁶ Self employment as a percentage of non-agricultural employment (data for the latest available year between 1990-2000) in India and Pakistan was 37 and 43 percent (HDC 2004), respectively, compared to 44 percent in Bangladesh. Share of paid workers (regular and casual) in total employment in India were 37 and 46 percent respectively among men and women, compared to 35 percent and 20.0 percent in Bangladesh. 1995-96 data (HDC 2004) shows that agriculture contributed 67, 47 and 42 percent of employment in India, Pakistan and Sri Lanka respectively. The comparable figure for Bangladesh was 48 percent.

areas and day laborers in rural area. As would be expected, regular salaried employee jobs are mostly in the non-agriculture sector while the agriculture sector mostly creates jobs in the categories of self-employed, day laborer, and unpaid family workers.

Table 3.3: Employed person by status of employment, gender and locality (Percent)

Status of employment	Bangladesh			Urban			Rural		
	Both Sexes	Male	Female	Both Sexes	Male	Female	Both Sexes	Male	Female
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Employee	13.7	13.8	13.4	23.7	24.4	21.6	10.5	10.5	10.5
Employer	0.4	0.4	0.2	0.6	0.7	0.3	0.3	0.4	0.1
Self-employed	44.8	50.6	24.5	41.2	47.1	21.6	45.9	51.6	25.5
Day laborers	20.0	22.9	9.6	15.6	17.3	10.1	21.4	24.7	9.5
Unpaid family worker	18.4	9.9	48.0	15.0	7.6	39.3	19.4	10.6	51.0
Domestic worker	0.6	0.1	2.5	1.1	0.1	4.3	0.5	0.1	1.8
Apprentice	0.9	1.0	0.6	1.3	1.3	1.2	0.8	0.9	0.4
Others	1.2	1.2	1.2	1.4	1.4	1.6	1.1	1.1	1.1

Source: Bangladesh Labor Force Survey 2003

3.22. *The income and poverty situation of self-employed workers in rural areas may have worsened during 2000-2003.* If we consider monthly income of taka 2,000 (roughly 1 US\$ a day) cut-off for poverty, about half of the self-employed fell below this level in 2003 (**Annex Table 3.10**), up from 42 percent in 2000. About 35 per cent of the urban self-employed and 55 per cent of the rural self-employed fell below the cut-off point in 2003, compared with 40 percent and 43 percent in 2000. The worsening condition of the rural self-employed would be even more pronounced if inflation during this period is taken into account. It is hard to be conclusive about this worsening pattern, however, as the survey data on income from two LFSs are not strictly comparable.

3.23. *The number of regular salaried jobs declined over the 2000-2003 period (Table 3.4), and the only reason this did not lead to increasing casualization of labor was that the day laborers declined even faster.* The number of regular employees fell in all major sectors except industry where it saw a small increase. The number of day laborers on the other hand fell markedly in agriculture but increased in all other sectors. The reduction in salaried jobs affected the female workers much more severely – the number of female employees fell by 20 percent and the number of female day workers by 40 percent (**Annex Tables 3.8 and 3.9**). This was offset by an increase of about 75 percent for unpaid family workers and about 15 percent for self-employed. *The number of female unpaid family workers, in fact, increased more than five-fold between 1996-2003, with most of the increase occurring in rural areas.* The increase in unpaid workers was mostly accounted for by the agriculture sector and, to a much lesser extent, by the industrial sector. The unpaid family worker category, just 12 percent of total employment in 2000, accounted for two-third of the increase in employment between 2000-2003 and all of the increase in female employment.

Table 3.4: Number of Workers by Status and Sector

	2003 Data (thousands)					
	Total	Employee	Employer	Self-Employed	Day Laborer	Unpaid Worker
Total	44322	6083	169	19849	8851	8139
Agriculture, Forest and Fisheries	22931	317	45	10548	5343	6555
Industry	4523	1666	24	928	1073	612
Construction	1541	87	6	341	1051	9
Services	15327	4013	94	8032	1384	963
	Change between 2000 and 2003 (thousands) 1/					
Total	5343	-450	72	1679	-639	3450
Agriculture, Forest and Fisheries	3147	-418	28	1994	-1888	3308
Industry	493	75	9	-280	259	210
Construction	446	-30	-7	35	426	-25
Services	1257	-77	42	-70	564	-43

1/ The aggregate of changes in individual categories is less than the total change. This is because of additional categories in the 2003 LFS that were not there in the 2000 LFS

Source: Bangladesh Labor Force Surveys (1999-2000 and 2002-03)

Educational Attainment of Labor Force

3.24. *Improving the quality of the labor force, particularly its literacy levels, is crucial for an economy that wants to place itself on the path to development and modernity.* Basic literacy and primary/secondary schooling are essential to productivity of almost any sector, while good quality higher education plays an important role in the economy's transformation away from primary activities.

3.25. *In Bangladesh, the educational attainment trends of the labor force are somewhat disheartening.* Half of the employed labor force is functionally illiterate and another 17 percent does not have education beyond class five (Table 3.5). On average, the employed labor force has only 4 years of schooling; 4.2 years on average for male workers and 3.2 years for female workers (Annex Table 3.11). The percentage of the labor force with no education, in fact, has increased over the period covered by the last three LFSs; from 47 percent in 1996 to 50 percent in 2003. This is driven by the decline among male workers, urban and rural; female literacy ratios, both urban and rural, albeit still considerably lower than male has been stagnant at about 41 percent. Urban literacy rates (64 percent) are considerably higher than rural (45 percent), for both male and female workers.

Table 3.5: Educational attainment of the economically active labor force: 1996 to 2003

Level of education	2002-2003			1999-2000			1995-1996			For both sexes (changes between)	
	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female	2003 & 2000	2000 & 1996
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	+3.5	-
No education	50.1	48.0	57.6	46.6	42.1	58.7	46.6	44.3	58.8	-7.5	0.0
Class I-V	16.8	17.4	14.9	24.3	25.4	20.4	23.3	26.4	19.2	-1.2	+1.0
Class VI-VIII	10.8	11.0	10.1	12.0	13.1	8.0	9.2	9.6	7.0	+3.1	+2.8
Class IX-X	8.6	8.9	7.6	5.5	5.8	4.3	6.4	6.9	4.9	+3.1	-0.9
SSC/HSC & equivalent	9.0	9.6	6.8	8.5	9.0	6.5	8.9	9.0	7.4	-0.4	-0.4
Bachelors degree or above	4.6	5.0	3.0	4.1	4.6	2.0	3.6	3.8	2.8	+0.5	+0.5

Source: Bangladesh Labor Force Surveys (various years)

3.26. ***Education attainment varies considerably across sectors.*** The average education of employed persons disaggregated by sector, status of employment, gender and location are presented in **Annex Tables 3.11-13**. Agriculture (especially fishing) and transport sectors employ workers with the lowest average education, while the labor force in public administration, health and education services, and modern sectors like electricity-power, finance and real estate have substantially higher educational attainment. It is discouraging though to see that almost half of the workers in the manufacturing sector have no education, which likely adversely impacts the sector's productivity.

3.27. ***Data for technical training and vocational education are similarly discouraging.*** Out of a labor force of 44 million, the 2003 LFS estimated that only 58,000 (53,000 males and 5,000 females), or a little over 1 percent of the labor force, had technical training or vocational education, and even among those, the relevance of their skills seems questionable.

3.28. ***There is still hope as past trends in educational attainment of workers are expected to improve.*** With rising school enrolment, labor force entrants with school education tends to decline in the initial phase. This trend is likely to be reversed after the interval taken to complete school education. In fact, in Bangladesh, during the last three years there has been a small increase in the percentage of labor force with class IX and above education. It would be reasonable to expect that within the next few years the percentage of school educated labor force will increase because of the rapid increase in school enrolment since the early nineties.

3.29. ***A more intractable problem has to do with the poor quality of education and pre-employment training.*** An important shortcoming is the gap between the skill types demanded by the market and those being supplied by the system is perceived to be still fairly wide. Studies have found education quality to have also deteriorated (CAMPE and UPL 2001). Furthermore, the quality divide between urban and rural areas is wide and, worryingly, appears to be worsening. Addressing the urban-rural gap would have to be at the heart of any government plan to address the skills shortages in the economy.

3.30. ***The low quality of the vocational education and training (VET) system is reflected in the low capacity utilization and pass rates:*** in both vocational education and vocational training institutions, close to half the student capacity remains unutilized, and pass rates in standardized tests have also dropped significantly in recent years. This is further corroborated by the weak demand for the graduates from the VET institutions. A tracer study shows that less than 10 percent of individuals who graduated in 2003 from these were employed over two years after the survey, while close to half the graduates took at least a year to find a job. Moreover, the wages for VET graduates appear to be lower than those received by graduates from the general education system.⁵⁷

Formal and informal employment

3.31. ***The informal sector is estimated to account for close to 80 percent of the employed labor force.*** Furthermore, the sector's share increased slightly over the 2000-03 period, accompanied by a decline in both private and public sector formal employment (**Table 3.6**). All economic sectors experienced an increase in informal jobs. Private formal sector job increased considerably in industries (manufacturing, mining, and utilities). These increases came at the expense of public sector jobs which declined across the board, and in private formal jobs in construction and services.

⁵⁷ *The Bangladesh Vocational Education and Training System: An Assessment*, World Bank, 2006.

Table 3.6: Formal and Informal Employed Labor Force by Sector

	2003 Data (thousands)				Change between 2000 and 2003 (thousands)			
	Total	Informal Sector	Private Formal Sector	Govt. Sector	Total	Informal Sector	Private Formal Sector	Govt. Sector
Total	44322	35078	7368	1877	5343	5749	14	-419
Agriculture, Forest & Fisheries	22931	21714	1163	54	3146	3085	172	-111
Industry	4030	1748	1956	326	493	154	516	-177
Construction	1541	1290	202	49	446	624	-141	-37
Services	15327	10172	3531	1625	1258	1886	-533	-94

Source: Bangladesh Labor Force Surveys (1999-2000 and 2002-03)

3.32. **The formal/informal breakdown of employment needs cautious interpretation.** For one, data on formal/informal distribution are difficult to interpret because of underlying definitional problems. Formal jobs are considered to be better in terms of job security, fringe benefits and pension schemes etc. Nonetheless, for an LIC like Bangladesh, it may be difficult to clearly distinguish formal from informal jobs and pinpoint their implications for worker benefits. In such a situation, even the formal sector employees may not get the benefits that are typically associated with the formal sector. Many formal sector enterprises may give jobs that are more closely associated with the informal sector. Besides, many employees in the RMG sector in Bangladesh do not get an appointment letter even though they may work for enterprises that are registered and fall under the formal sector. On the other hand, many enterprises may not obtain the required registration etc. for qualifying as formal sector, because they do not have an incentive to do so. The distinction for the labor market in Bangladesh is made even more blurry by the fact that the LFS reports do not include a definition of the formal employment. Moreover, the workers may not know whether their employer has formal registration when interviewed for the survey.

Bangladeshi migrant workers

3.33. **International migration is a major source of gross national income and foreign exchange in Bangladesh.** It is estimated that between 1976 and 2004, a total of 3.7 million workers migrated abroad, and at present about 3 million people of Bangladeshi origin are living and working abroad (MoF).⁵⁸ This constitutes 6.5 per cent of the present labor force within the country (**Annex Tables 15-16**). The growth rate of fresh migration has declined since the early 1990s, with negative growth recorded for 2001 to 2003. Even so, 241 thousand workers – about one-half percent of the domestic labor force – migrated to work abroad in 2003.

3.34. **The net benefits from migration appear to be positive for Bangladesh.** The benefits from migration are clear – in the form of higher income and foreign exchange. Are there any associated costs, especially due to brain drain and shortages of critical skills? It seems unlikely that that is the case in Bangladesh, given its excess supply of labor, especially unskilled labor, a category under which majority of the emigrants fall. The share of the unskilled workers, in fact, has also risen since 1990 (**Annex Table 17**), from 40 percent of all migrants in 1990 to 54 percent in 2003.

3.35. **The Middle East is the favorite destination of emigrants – accounting for over 90 percent of emigration (Annex Table 18).** Saudi Arabia alone accounts for almost two-third of emigration, but only about 40 percent of total remittances because of the low-skill emigrants it attracts. The U.A.E. and Kuwait are the other preferred destinations: together, these three countries account for almost 90 percent of all emigrants. The USA has a small share of immigrants from Bangladesh (less than 5 percent), but accounts for 15 percent of the remittances because of the higher skill level of emigrants there.

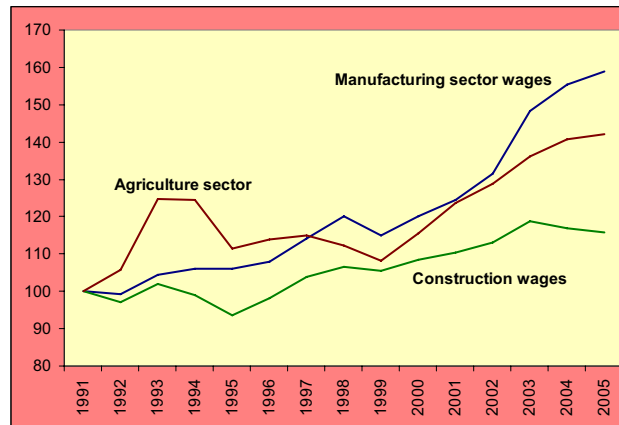
⁵⁸ This does not take into account the estimated millions of unrecorded migrants, majority believed to be India.

IV. Earnings from Paid Employment

Wage trends

3.36. *Real wages in the manufacturing sector have risen quite sharply (Figure 3.7) as per the BBS data.*⁵⁹ The real wage index for the sector increased by over 30 percent between 2000 and 2005. Real wages increased in the other sectors as well, albeit at a slower pace; by 23 percent in the agriculture sector and by 7 percent in construction.⁶⁰ Real wage trends in agriculture turned a corner in 2000, after virtually stagnating in the 1990s.

Figure 3.7: Real Wage Trends in Major Sectors (1991 normalized to 100)



Source: BBS Data and World Bank Staff calculations

3.37. *Real wage growth in the manufacturing sector exceeds the sector's labor productivity and output growth.* While real manufacturing wages increased by 32 percent over 2000-2005, real manufacturing output per worker increased by no more than 20 percent.⁶¹ This disparity could arise from any combination of: a premium on certain skill sets not readily available; informational problems that prevent matching of jobs with available workers with the right skills, and; wage setting by collective bargaining. Other than collective bargaining, which doesn't seem to be prevalent in Bangladesh (Section VI), the first two forces are likely to be at play. There is some evidence of the skills premium increasing in the engineering industry. For instance, the ratio of the daily wage rate for a "skilled" fitter in the engineering sector to that of an "unskilled" fitter increased from 1.40 in 2000 to 1.72 in 2005.

3.38. *The disparity between real wage and labor productivity trends appears even more glaring for the agriculture sector.* While real wages in the sector increased by 23 percent over the 2000-05 period, real output increased by just 13 percent. In order for labor productivity changes alone to justify the real wage increases, labor force in agriculture would have had to fall by 10 percent over the five year period. While labor has been flowing out of agriculture, the pace is likely to have been slower than that. It is possible that part of the wage increase in agriculture was simply catching up with the productivity

⁵⁹ A nation-wide price index for the industrial sector has been used to convert the nominal indices into real indices for general, manufacturing and construction. To deflate nominal agriculture wages, price deflators for agriculture from the national accounts are used.

⁶⁰ The LFS data, on the other hand, show agriculture sector wages to have declined during 2000-2003, in large part because the 2003 survey was conducted during the lean agriculture season of October-November, while the earlier survey was spread over the year.

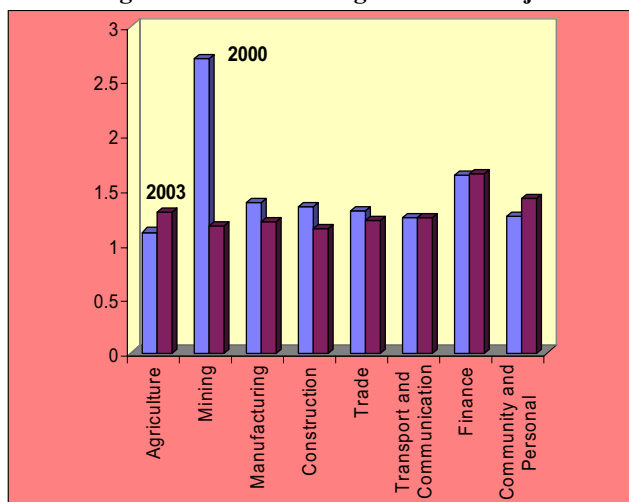
⁶¹ This is assuming that the annual labor force growth in manufacturing was 3 percent, about the same as the overall labor force growth. The increase in output per worker in manufacturing over the 2000-05 period would be accordingly lower than 20 percent if the labor force growth in the sector was higher than 3 percent.

improvements seen in the 1990s which were then accompanied by real wage stagnation. The adjustment would have occurred over the 2000-05 period because of the significant tightening of the labor market in manufacturing which trickled to other sectors, including agriculture. Two other important factors likely also contributed. One, certain high wage segments of agriculture – e.g. commercial poultry, high value crops etc. – deepened over the latter period, as shown in **Chapter 2**. Second, the forms of labor employment or features of contract are changing. Piece rate and contract jobs are beginning to substitute time rate or daily employment. Piece rate jobs are given for specific work and usually a group leader is involved in the negotiation. The employer does not supervise the laborers. This form reduces supervision cost and raises the intensity of work. Thus productivity and wage rates tend to benefit.

Rural-urban wage differential

3.39. ***The LFS data show significant rural-urban wage disparity in 2003; the weighted average rural wage rate was only 62 per cent of urban wage rate (Annex Table 19): the divergence was 40 percent for males and 33 percent for females.*** The disparity between rural and urban wages stands even after accounting for the cost of living differences: cost of living in urban areas is estimated to be about 25 percent higher than in rural areas. Wage disparities in agriculture and services seem to be driving this (**Figure 3.8**). Urban wages for the agriculture sector were about 30 percent higher, while the wage gap in services varied between 22 percent (trade) to 65 percent (finance). In the manufacturing sector, urban wages are about 20 percent higher than rural wages, which mainly reflects the difference in cost of living.

Figure 3.8: Ratio of Urban Wage Rate to Rural Wage Rate for Major Economic Sectors (Percent)



Source: BBS Data and World Bank Staff calculations

3.40. ***The overall rural-urban gap remained virtually unchanged between 2000 and 2003, with offsetting changes across different sectors.*** The rural-urban wage divide became worse in the agriculture sector and improved dramatically in mining and also in the manufacturing and construction sectors between 2000 and 2003. The disparity didn't change much in most services sub-sectors, except personnel services where it became considerably worse.

V. Determinants of Employment and Real Wages: An Analytical Approach

Determinants of employment levels: cross-sectional variations

3.41. This section seeks to identify analytically the factors that affect weekly hours of employment in the major sectors. Key results from the regression reported in **Annex Table 20** are:

- The size of landownership tends to increase employment levels. Here two offsetting effects would be at play. Bigger size of landownership can positively affect productivity and hence boost employment from the demand side. On the other hand, it can negatively affect employment from the supply side by reducing incentives to work. On balance, it appears that the positive demand side impact dominates.
- Workers training has a positive and significant effect on the hours of employment, likely reflecting an increased demand for their higher skill levels.
- Worker's education lowers the hours of employment. This is consistent with **Table 3.2** which shows an positive relationship between unemployment and education. This likely reflects the higher reservation wages of the more educated and the substantial the gap that studies have found between the skills being demanded by the market and those being supplied by the system.
- Urban areas provide more hours of employment even after controlling for worker characteristics and sectors of employment. This likely reflects both demand and supply side factors. On the supply side, urban workers need to put in longer hours to cope with the higher cost of living and, for the large number of migrants, to be able to send remittance money back home to rural areas. On the demand side, productivity in urban areas is higher because of agglomeration economies and other benefits mentioned in **Chapter 5**.
- Among the various statuses of employment, hired employment is associated with more hours of employment than self-employment – more so for the 'salaried employees' than wage laborers who are often hurt by seasonality of their work. Unpaid family workers and employers tend to put in fewer hours than the self-employed.
- The manufacturing and construction sectors provide more hours of employment than agriculture. The trade and transport and communication sub-sectors provide more hours of employment than agriculture, but the rest of the services sector provides fewer hours.
- As would be expected, the relationship between hours of employment and age of the worker has an inverse U-Shape. Hours of employment increase with age up to a certain age and decline after that. This is also consistent with **Figure 3.3b** that shows a similar relationship with LFPR and age for male workers.
- Other worker and household characteristics also affect hours of employment. Males and heads of the family worker longer hours. Having more dependents in the households also increased the number of hours of employment.

3.42. The determinants of hours of employment are quite similar for the self-employed and for paid workers (**Annex Tables 21 and 22**). The coefficients on workers' education and training are not significant for the self-employed, while land ownership is not significant for either category.

Determinants of wage rates

3.43. **Section IV** showed rural-urban and sectoral differences in wage rates. It left out the micro characteristic such as human capital differences and household characteristics that could further help explain wage differences among workers. This section jointly assesses the role of all these factors that can affect wage earnings from paid employment. Regression results using 2002-2003 LFS data are presented in **Annex Table 23**, and show that:

- The public sector pays 32 percent higher wages, on average, compared to the private sector after controlling for all other factors, including skills and location. The premium for public sector is

Bangladesh: Strategy for Sustained Growth

well recognized in Bangladesh,⁶² which results in rationing of these jobs to a few fortunate ones and also distorts wage signals in the rest of the economy.

- Urban wages are about 11 per cent higher. This captures the urban-rural differences in the cost of living as well as higher productivity in urban areas.
- Human capital – i.e., workers’ training and years of schooling – tend to improve wages. This is only to be expected in an economy in which skill levels are still visibly quite low.
- Male wages are about 40 per cent higher than female wage rate, even after controlling for education and other worker, location and employment characteristics. Gender bias in remuneration is not unique to Bangladesh; even developed countries report evidence of it. Like the rest of the world, it is an important ongoing challenge for Bangladesh. Wage disparities perpetuate economic inefficiency – not to mention the social inequity they perpetuate.
- Salaries of regular employees are about 20 percent higher than irregular employees and day laborers. This confirms that the workers in the former category are relatively more empowered to bargain their position. The higher remuneration also comes in addition to the better working conditions, including substantially higher job security.
- Asset endowment – proxied here by size of land ownership – tends to improve wages. This likely has to do with the higher reservation wage of land owners. Those with bigger size land would be willing to work outside of it with better compensation. Why the employers would be willing to link pay with the size of landholding of the worker, everything else being the same, needs more analysis. Possibly, the enhanced social standing that comes with a larger land endowment improves the workers’ bargaining power as well.
- Differences in wages also exist among various sectors. Relative to the agriculture sector, the wage premium is 17 percent in manufacturing, 32 percent in constructions, and anywhere from 2 percent to 30 percent in services.
- The relationship between workers age and wage rates has an inverse-U shape. Initially, wages increase with age up to a certain age, after which they decline with age.

VI. An Overview of Labor Laws and Regulations in Bangladesh⁶³

3.44. The Right of Association: Bangladesh's Constitution guarantees freedom of association, the right to join unions, and, *with government approval*, the right to form a union. With the exception of workers in the railway, postal, telegraph, and telephone sectors, civil servants are forbidden to join unions. The ban also applies to the military and police. Some public sector employee groups, such as teachers and nurses, although forbidden to join unions have joined associations which perform functions.

3.45. The Industrial Relations Ordinance (IRO), 1969, provides that any worker or employer has the right to form a union/association without previous authorization. But such a union/association cannot function as a trade union without being registered under the law, which requires a 30 percent participation in the union before it can be registered, and a union may be dissolved if membership falls below this level. The ILO's Committee of Experts on the Application of Conventions and Recommendations (CEACR) finds such requirements to be excessively restrictive and has requested that the government amend these. Additionally, the International Confederation of Free Trade Unions (ICFTU) has expressed

⁶² See, for example, *Bangladesh Public Expenditure Review*, World Bank, 2003.

⁶³ Sources: U.S. (i) State Department Country Report on Economic Policy and Trade Practices in Bangladesh, 1998. (ii) Fair Labor Association, 2004 Annual Report. (iii) Board of Investment, Bangladesh.

concerns that workers trying to establish a trade union are not protected by law, and as a result, are subject to severe resistance from employers and government to prevent formation of the union.

3.46. Bangladesh has ratified seven of the eight fundamental ILO conventions. In 1972 Bangladesh ratified both fundamental ILO Conventions concerning freedom of association: Freedom of Association and Protection of the Right to Organize (Convention No. 87, and Right to Organize and Collective Bargaining (Convention 98). However, when Bangladesh ratified the International Covenant on Economic, Social and Cultural Rights (ICESCR), it entered a reservation on articles 7 and 8, which guarantee the right of everyone to form trade unions and join the trade union of their choice. The reservation indicated that there would be some limitations placed on workers' freedom of association.

3.47. In 2002, there were about 6,300 registered trade unions, most with political affiliations, with less than 2 million worker members (less than 5 percent of the workforce). The relatively low level of union membership reflects the informal nature of vast majority of economic activity and the mentioned restrictions that apply to the formal sector.

3.48. The Right to Bargain Collectively: Collective bargaining by workers is legal under the condition that their unions are legally registered as collective bargaining agents. In case of multiple registered unions in an establishment, a collective bargaining agent is determined by the Registrar of Trade Union – a position given to the Director of Labor of the government – through a secret ballot for a term of two years. Collective bargaining occurs occasionally in large private enterprises but is generally not seen in small private enterprises.

3.49. Right to Strike: Strikes are common in Bangladesh and are recognized in the 1969 IRO as a legitimate avenue for addressing unresolved grievances. The IRO permits the government to bar strikes for three months in any sector deemed "essential." These include utilities (electricity, gas, oil and water etc.), hospital and ambulance services, fire brigade, railways and the national airline Biman, and ports. Mechanisms for conciliation, arbitration and labor court dispute resolution were also established under the 1969 IRO.

3.50. The ILO Committee of Experts has objected to the following provisions of the IRO on the grounds that these restrict workers' right to defend their economic interests through strikes:

- the need for three-quarters of the members of a workers organization to consent to a strike;
- the government's power to prohibit a strike if it lasts more than 30 days or to prohibit a strike at any time if it is considered prejudicial to the national interest; and
- penalties (which include imprisonment) that may be imposed if workers participate in an industrial action that is deemed by the government to be unlawful.

3.51. Prohibition of Forced Labor: The constitution prohibits forced or compulsory labor. The Factories Act and the Shops and Establishments Act, both passed in 1965, set up inspection mechanisms to guard against forced labor, but resources for enforcement are scarce. Nevertheless, the practice of forced labor is believed to be quite limited.

3.52. Minimum Age for Employment of Children: Bangladesh has laws that prohibit labor by children. The Factories Act bars children under the age of 14 from working in factories. The enforcement of these rules is quite inadequate though and the application of the rules to informal sector activities such as agriculture and domestic help – where majority of child labor is found – is not clear. As per the 2000 LFS data, over 5 million, or 20 percent of the population in the 0-14 age group, was working.

3.53. In July 1995, Bangladesh garment exporters signed an MOU that has virtually eliminated child labor in the garment export sector. Under the MOU, schools and a stipend program were established for

Bangladesh: Strategy for Sustained Growth

displaced child workers. By November 1998, hundreds of schools serving thousands of former child workers were in operation. A system of fines and possible suspension of import/export privileges exists, and a monitoring system has been set up by the ILO.

3.54. Acceptable Conditions of Work: Regulations regarding minimum wages, hours of work and occupational safety and health are not strictly enforced. The legal minimum wage varies depending on occupation and industry. It is generally not enforced in the private sector. The garment sector has witnessed prolonged worker agitation over dissatisfaction over minimum wage rates which have not changes for several years. The impasse carries on unresolved, highlighting the significant economic cost of not having in place a functioning mechanism to resolve labor disputes in the formal private sector. In the public sector, wages and fringe benefits of the workers are determined on the recommendation of the National Pay Commission established from time to time. Sometimes private industries follow the public sector wages & salary structure for their workers.

3.55. Leave & holidays of the workers & employees are regulated by the Factories Act, 1965 and shops Establishment Act, 1965. The law sets a standard 48-hour workweek with one mandated day off. A 60-hour workweek, inclusive of a maximum 12 hours of overtime, is allowed. The Factories Act of 1965 nominally sets occupational health and safety standards. The law is comprehensive but appears to be largely ignored by many employers.

Freedom of Association in Export Processing Zones in Bangladesh

3.56. In 1980, the Bangladesh Export Processing Zones Authority Act 10 was enacted. It provided for the establishment of the Bangladesh Export Processing Zones Authority, (BEPZA), which is the official arm of the government responsible for the creation, development, operation, management, and control of export processing zones (EPZs). Under the BEPZA Act the government may exempt an EPZ from as many as 16 laws, including the Industrial Relations Ordinance (IRO). In 1986, the government declared, in accordance with the BEPZA Act, that the IRO was not applicable in the EPZs. The declaration effectively suspended the rights of workers in EPZs to freedom of association and collective bargaining.

3.57. Mostly under pressure from the U.S., in 2004 the Parliament of Bangladesh passed a bill granting limited workers' association rights in the country's export processing zones (EPZs) effective from November 1, 2006. Under the 2004 Bill, trade unions of a particular EPZ can form a federation, but there cannot be more than one federation in an EPZ. The federations will not be allowed to form a single national body or join any national trade union, political party or its labor front.

VII. Challenges Ahead

3.58. A rapidly growing labor force presents a critical development challenge for Bangladesh. Its labor force is projected to increase by 10 to 20 million over the next decade – 10 million if the female LFPR does not change and 20 million if female LFPR increases to 40 percent. Creating productive employment opportunities will clearly be an imperative for poverty reduction and even sustained economic growth in Bangladesh, as rightly recognized by the Government's Poverty Reduction Strategy (PRS). Labor market regulations in Bangladesh do not appear that encumbering, especially relative to India, as is also borne out by various investment climate survey results which show that hiring/firing rigidities are not among the main concerns of employers. More effective enforcement of the existing labor market policies is needed, nonetheless, especially to protect worker rights. Instrumental for meeting the government's employment generation objective will be sustained productivity and output growth across all major economic sectors (an agenda covered in the rest of this report); deeper and more focused government attention to enhancing worker skills, particularly by strengthening the higher education and VET systems and making them more responsive market needs; improved urban management to facilitate rural-urban migration; and, continued

Chapter 3: The Labor Market: Trends, Characteristics, and Challenges

emphasis on gender empowerment to allow greater mobility of female workers to more productive employment opportunities.