

FISCAL AND POLICY SPACE FOR CRISIS RESPONSE WITH A FOCUS ON EMPLOYMENT AND LABOUR MARKET: A STUDY OF BANGLADESH

Final Report

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March 2011



Employment Policy Department
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Fiscal and Policy Space for Crisis Response with a Focus on Employment and Labour Market: A Study of Bangladesh¹

Rizwanul Islam
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1. INTRODUCTION

1.1. Background and Objectives of the Study

One of the major aspects of the global economic crisis of 2008-09 was deep economic recession that many developed countries suffered from. A number of developing countries also suffered economic downturns, if not outright recession. The importance of counter-cyclical macroeconomic policies in fighting the economic downturn has been widely recognized. However, the ability of countries to adopt such policies depends on the fiscal capacity to meet the necessary costs (if necessary, by allowing a fiscal deficit) and the institutional capacity to implement such policies, especially if they were to contribute to protecting the poor and the vulnerable. While most developed countries adopted such policies to stimulate their economies out of the downturn, the response of the developing countries varied, depending on the fiscal and policy space they had for accommodating the necessary increases in expenditures and for implementing the relevant programmes. It may be recalled in this context that the economic crisis came soon after the global economy witnessed crises caused by very high prices of fuel and food as a result of which many developing countries dependent on imports of those commodities were already suffering.

Although the economy of Bangladesh has not been severely affected by the global economic crisis of 2008-09, its adverse effects were felt by a number of its export-oriented sectors. And the government responded by adopting a stimulus package for assisting selected sectors, although the size of the package was rather small compared to the size of the economy. It thus seems that the economy of Bangladesh did not face a real challenge during the recent economic crisis.

It needs to be noted that while fluctuations in economic activities are normal in market-based economies, the frequency and severity of such fluctuations have increased in recent

¹ A study undertaken for the Employment Policy Department, International Labour Office, Geneva.

² The authors are thankful to Iyanatul Islam of the ILO for the intellectual guidance provided by him in the course of the study. Makiko Matsumoto of the ILO provided practical support in organizing the study. Both of them made valuable comments on earlier drafts of various chapters. At the ILO Dhaka Office, Gagan Rajbhandary (who was Director, a.i. at the time the study was initiated) was extremely supportive of the study. Very useful practical support was provided by the ILO Dhaka Office for a mission to Dhaka by Rizwanul Islam. In particular, M. Saidul Islam of the ILO Dhaka Office played a valuable role in facilitating the above mission and in organizing the survey of stakeholders. T.I.M. Nurunnabi Khan of the ILO Dhaka Office also provided useful support during the mission. Those who provided assistance at various stages of the study (for example, in collecting and processing the secondary data, in carrying out the survey of the stakeholders, and in processing data from the survey) are: Rupa Biswas, Purabi Majumdar, Md. Masudur Rahman, Tahreen Tahrima Chowdhury, Md. Romel Haider, and Masudur Rahman Bobby.

decades. Economic and financial crises of different types and degrees of severity are also affecting various countries, regions and the world quite frequently. Hence, it is important to keep a country in a state of preparedness to face such crises. Moreover, experience demonstrates that crises originating in the financial world spread to the real world and affect people's lives and livelihoods through a variety of transmission channels. Therefore, in undertaking policies in response to a crisis, it is not only the economic impact that one needs to address but also the social dimensions (e.g., employment and the labour market).

In terms of policy response to an economic downturn, there is general consensus that the key determinants of effective responses include the availability of necessary financial resources and institutional capacity to formulate and implement feasible programmes and policies. Comparative data collected by Bretton Woods institutions suggest that approximately 30 percent of the developing countries have low or moderate fiscal and institutional capacity that constrain their ability to adopt counter-cyclical measures to deal with economic downturns and bring their economies back to the path of sustained economic growth. It may be recalled in this context that the World Bank has identified Bangladesh amongst the "high exposure" countries, and its fiscal capacity has been rated to be in the "medium" range.

The degree of preparedness of the country's economy to face severe external shocks can be examined by subjecting the economy to certain "tests" which would consist of measures that the country should undertake to protect its poor and vulnerable from the fallout of such a shock. While studies have been undertaken to analyze the impact of the economic crisis on the economy of Bangladesh and its labour market (e.g., Rahman, et al., 2009), there is very little by way of analysis of what kind of employment and labour market programmes are needed in order to protect the poor from such crises in future, especially if it is serious. In that context, it would be important to consider the idea of creating a basic social floor for the poor of the country, and estimating the cost implications of such a package of programmes.

Against the backdrop mentioned above, the present study has been undertaken with the purpose of identifying the broad elements of a possible post-crisis agenda consisting of measures to cope with severe external shocks in future and to sustain development strategies for achieving the MDGs. The major focus of the study is on social dimensions of such an agenda, especially the aspects relating to employment and the labour market.

1.2. Data Used and Their Sources

The present study is based mainly on secondary data that are available from various published and unpublished sources of the Government of Bangladesh. The analysis based on secondary data is supplemented by primary data on the perception of key stakeholders about various issues that are being covered by the study. This primary data has been collected through a survey of such stakeholders using a structured questionnaire. The respondents of the survey included selected high level officials of the Government of Bangladesh, representatives of employers and workers, and representatives of the academic community, civil society, media, think tanks, and development partners in Bangladesh. A total of 45 respondents were covered by the survey. Section 7 of the present study is based entirely on data obtained through this survey.

1.3. Organization of the Study

The study is organized as follows. While section 2 provides a picture of the basic macroeconomic situation of the country, section 3 presents a brief analysis of the impact of the global economic crisis on Bangladesh and of the policy response by the Government of Bangladesh. Section 4 outlines a framework for identifying the core elements of a policy package for responding to economic crisis with a focus on employment and the labour market. It also provides a brief overview of the fiscal commitment of the government for various employment and other major safety net programmes. Section 5 provides cost estimates of a package of employment and labour market programmes in the context of basic social floor that can be used to strengthen preparedness for responding to economic crises in future. Section 6 analyzes how the fiscal space could be enhanced for meeting the cost mentioned above. Section 7 presents an analysis of the issues mentioned above based on the perceptions of key stakeholders. Section 8 presents a summary of the key findings of the study and some concluding observations.

2. THE MACROECONOMIC PERSPECTIVE

In a discussion of economic crisis, its impact, and the post crisis agenda for recovery, the macroeconomic perspective becomes important for a variety of reasons. First, a number of macroeconomic indicators can be used to monitor the degree of vulnerability of an economy to crisis and its preparedness to face a crisis. For example, the work of Reinhart and Rogoff (2009) based on the history of a large number of financial and economic crises brings out a number of variables that could be used to provide early warning about looming financial and economic crises. They include: (i) changes in real exchange rates, (ii) external debt as percentage of GNP/GNI, (iii) short-term debt as percentage of foreign exchange reserves, (iv) foreign exchange reserves as percentage of broad money, (v) short-term capital inflows in relation to GDP, (vi) ratio of current account balance to investment and GDP, (vii) growth of exports, (viii) real housing prices, and (ix) real stock prices. It would, therefore, be useful to examine the state of the economy of Bangladesh with respect to the above variables.

Second, macroeconomic policies are important from the point of view of putting in place an appropriate package of measures to respond to an economic crisis. While there is a debate on the respective merits and demerits of monetary and fiscal policies in responding to economic crisis, the experience of countries --both developed and developing--shows that a combination of monetary and fiscal policies is needed to effectively address the challenges posed by an economic crisis which results in economic downturn. A narrow focus on "inflation targeting" may, of course, lead one to believe that monetary policy is the primary instrument for macroeconomic management. But in the re-thinking on macroeconomics that is going on in the post-global economic crisis scenario, an important area of discussion is the relevance and usefulness of narrowly focusing on low (single digit) inflation rate and using monetary policy alone to achieve that target.³ While the importance of maintaining price stability is not disputed, there is a

³ Even IMF economists are taking a fresh look at the desirability of very low inflation rates, and are recognizing the importance of broader goals and using multiple instruments of macroeconomic

growing realization of the importance of focusing on broader goals and using multiple instruments of macroeconomic management.

Despite the recognition of the importance of broadening the goals, employment has not yet been explicitly integrated into mainstream discussion on macroeconomic policies. However, with the introduction of employment related targets into the Millennium Development Goals (the MDG target 1B), it is important not just to monitor the employment situation by using the agreed indicators but also to integrate employment into the process of formulating and implementing macroeconomic policies.⁴ Islam (2010) highlights the challenges involved in using the MDG target 1B to design macroeconomic policies in the post-crisis era and outlines the guiding principles for this purpose. The latter includes (i) changing goals and targets for central banks and finance ministries; (ii) developing tools for improved management of macroeconomic risks; and (iii) enhancing access to external financing to support macroeconomic risk management and development strategies.

In view of the considerations mentioned above, it would be useful to take a look at the macroeconomic situation prevailing in the country before and during the global economic crisis, so that it is possible to formulate an idea about the country's degree of vulnerability to crisis and of preparedness to face it. The overview of the macroeconomic situation will also serve as background to the subsequent discussion on fiscal and policy space that the country has for responding to such crises.

However, before examining the relevant macroeconomic variables that could serve as indicators of the country's macroeconomic strength to weather an economic crisis, this section will start by looking at the GDP growth as well as the pattern of growth achieved by the economy of Bangladesh during the 1990s and after 2000. The discussion on economic growth will be followed by a brief discussion on savings and investment, the ability of the country to raise revenue resources, and the trend in development expenditures. The efficiency with which macroeconomic management has been conducted will be examined by using a variety of indicators, e.g., budget balance, inflation rate, foreign exchange reserves in relation to import requirements, money supply, and short-term debt, the overall external debt situation in relation to GDP, etc.

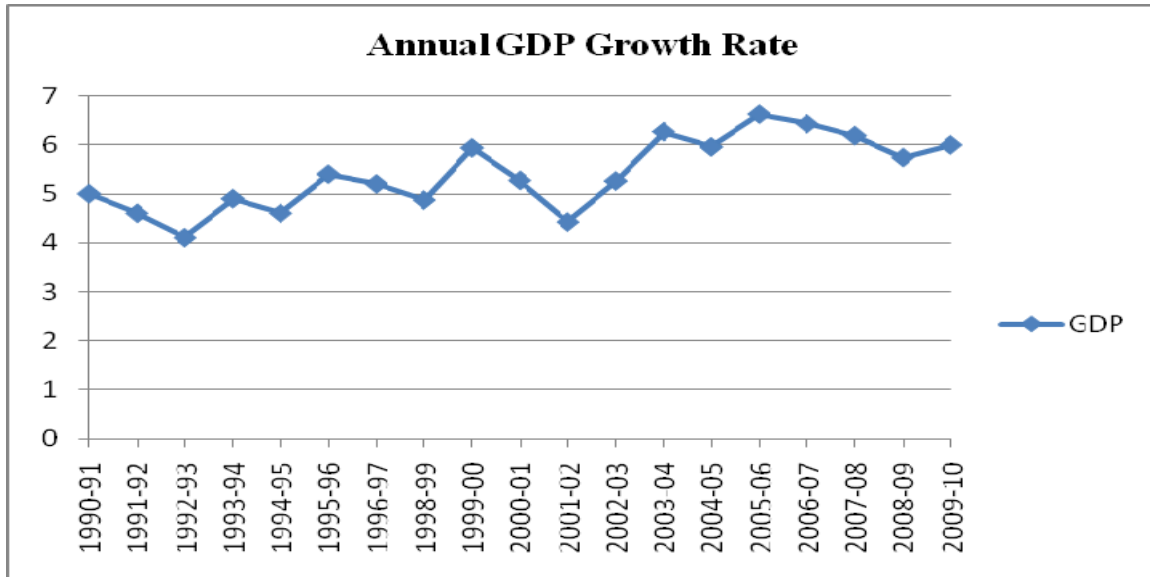
In terms of GDP growth, the economy of Bangladesh has achieved acceleration since the 1990s. While the annual average growth during the 1980s was less than 4 percent, it exceeded 4 percent in the early 1990s and crossed the 5 percent mark during the second half of the 1990s. And during 2003-04 to 2006-07, the annual rate of GDP growth exceeded 6 percent. Indeed, during that period, there was an expectation that the

management. See, for example, Blanchard, et al. (2010). A good account of the re-thinking of macroeconomic policies that is going on is available in Islam, Iyanatul (2010).

⁴ The MDG target 1B is to "achieve full and productive employment and decent work for all, including women and young people". This target is associated with four indicators: (i) growth rate of labour productivity (GDP per person employed), (ii) employment-to-population ratio, (iii) proportion of employed people living below poverty line, and (iv) proportion of own-account and contributing family workers in total employment (vulnerable employment rate). These indicators don't have any quantitative target as such, but the idea is to achieve the broad goal mentioned above by improving upon them.

economy would be able to achieve 7 percent growth rate.⁵ However, that expectation has not materialized. In fact, after peaking in 2005-06, GDP growth slowed down in subsequent years and fell below 6 percent in 2008-09 (Figure 1). For 2009-2010, although the government's forecast was 6 percent, other forecasts (including those of the World Bank, the Asian Development Bank and private think-tanks within the country) ranged between 5 and 5.5 percent. The latest estimate shows a growth rate of 5.8 percent during the year.

Figure 1: Annual (Real) GDP Growth Rate, 1990-91 to 2009-10



Source: *Bangladesh Economic Review*, 2000, 2010.

The acceleration in GDP growth that was achieved since the 1990s was accompanied by a decline in the population growth rate. As a result, there has been a substantial increase in the country's per capita income growth. While the annual per capita GDP growth was less than 3 percent per annum till the mid-1990s, it exceeded 4 percent per annum during 2000-05. For a country which was once dubbed as an international basket case, this is no mean achievement. However, before drawing any further conclusion concerning the rate of economic growth achieved, it may be useful to put the record in some perspective.

Using a comparative Asian perspective, especially in relation to fast growing countries like China and India, Islam (2009) pointed out that while the acceleration in GDP growth attained by Bangladesh has been significant, the GDP growth of 6 to 6.5 percent per annum is not particularly notable. In addition, there are at least two reasons for not being too complacent about the growth performance of the economy. The first has already been noted above--a deceleration in GDP growth itself in recent years. While the decline in growth in 2008-09 and 2009-10 can be ascribed, at least partly, to the impact of the global economic crisis, the trend towards deceleration had already started after 2005-06. It is clear that the growth achieved during 2003-04 to 2005-06 could not be sustained.

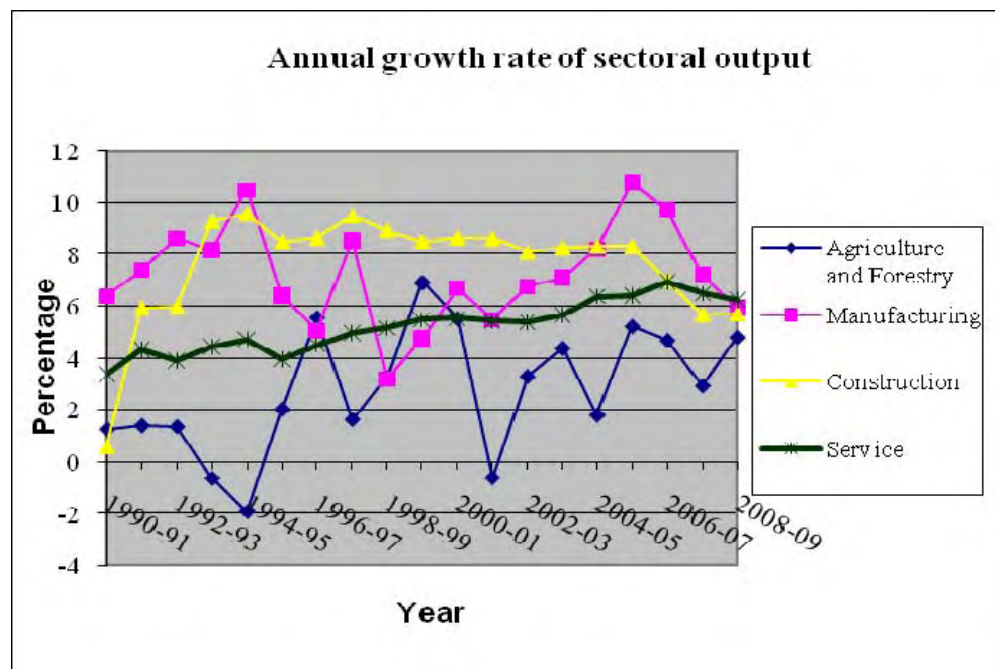
⁵ The Asian Development Bank, in a 2007 report, projected a GDP growth of 7 percent for Bangladesh for 2008. See ADB (2007).

While an analysis of the factors responsible for a decline in economic growth is beyond the scope of the present study, a few remarks may be made here. First, natural calamities may have been responsible for a decline in the growth of agriculture in some years (e.g., 2007) --casting an adverse effect on overall economic growth. Second, it may be recalled that the country went through a period of political transition during 2006-07 to 2008-09. The uncertainty prevailing during that period may have been responsible, at least partly, for a decline in investment and output growth. In fact, there was a fall in the growth rates of both construction and manufacturing in 2007 and 2008 (see Fig. 2). Third, the secular decline in GDP that has been witnessed since 2006 raises the important issue of growth rate that can be sustained by the economy over the medium and long term.

The second reason for not being complacent about the growth record of Bangladesh is the pattern of growth that has been seen. A look at the growth rates attained by the major sectors of the economy (Figure 2) brings out a number of points.

First, the growth rate in agriculture has been rather unstable-- registering very low growth in some years. And since agriculture still accounts for a large part of the GDP, overall GDP growth cannot be sustained without a sustained growth of agriculture.⁶ Moreover, as a large proportion of the poor are engaged in agriculture (either as small and marginal farmers or as wage labourers), unless agriculture achieves consistently high growth and unless productivity and returns of poor farmers and the workers engaged in the sector increase, the country cannot expect to achieve poverty reduction at rates required to achieve the relevant MDG.

Figure 2: Annual Growth Rates of Sectoral Output



⁶ Although the share of agriculture in GDP has declined over time and the sector now accounts for only a little over 15 percent of GDP, its growth remains important for a variety of reasons including the strong linkage effects on growth in other sectors. It may also be noted that if “fisheries” is included, the share of agriculture broadly defined would exceed 20 percent--making it the single largest sector of the economy.

Second, compared to agriculture, growth in manufacturing has been more stable; and yet, there have been fluctuations. Only after 2001, there has been a consistently rising trend, and it was only in 2005-06 that growth rate in manufacturing crossed the double digit figure. But there has been a secular decline in growth of output in that sector since 2005-06. The construction sector also recorded a dip in growth since 2005-06. It is only the services sector which has achieved consistent rates of growth. But the question remains whether this is due to dynamism in the sector or whether it is playing the role of last resort for many to eke out a living when other sectors cannot provide them with means of livelihoods.

As for the structure of the economy in terms of the share of the broad sectors, there has been a decline in the share of agriculture in GDP and an increase in the shares of manufacturing and construction. As for manufacturing, after a substantial increase in its share during the 1990s, the increase during the 2000s has been so small that that cannot be regarded as indicative of a significant structural change towards the sector. In other words, manufacturing industries have not emerged as the major engine of growth of the economy.

Given the acceleration in economic growth achieved since the 1990s, it is not surprising that there has also been acceleration in the share of investment in the GDP (Figure 4). However, like the rate of GDP growth, increase in the share of investment in GDP also peaked in 2005-06 and flattened out thereafter. In fact, there has been a slight decline in 2007-08 and 2008-09 which, in turn, is consistent with the decline in the rate of GDP growth.

Figure 3: Shares of Broad Sectors in GDP (1990-91 to 2008-09)

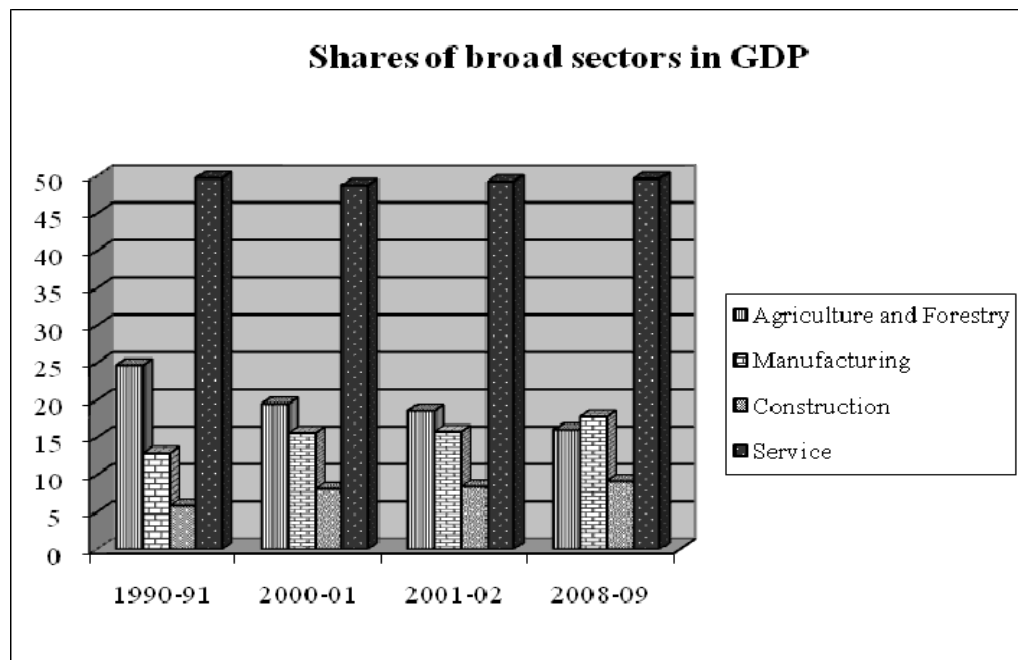
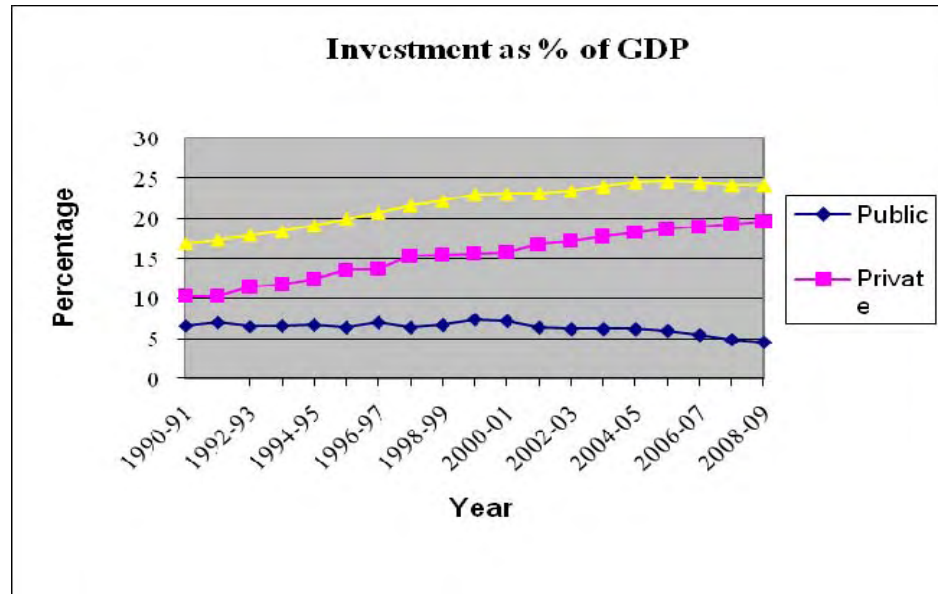
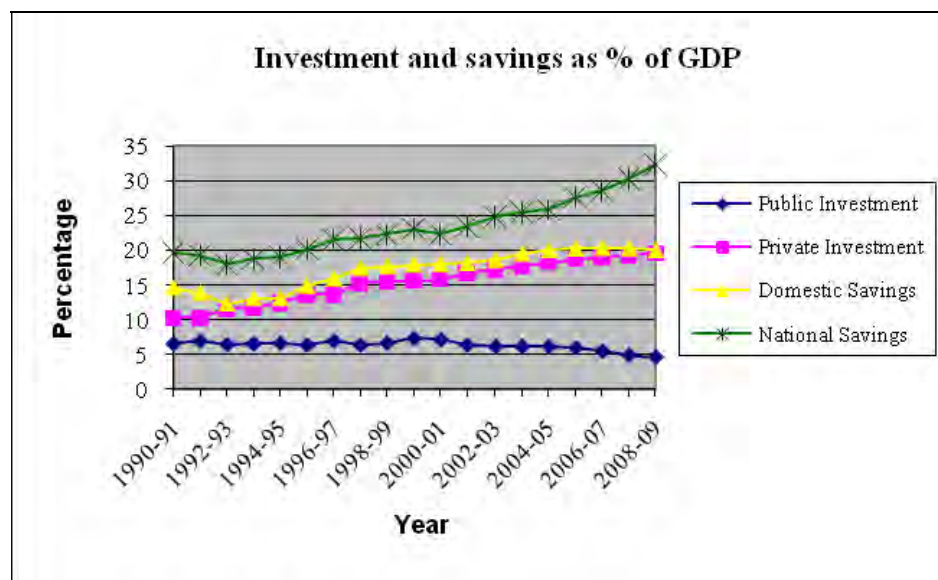


Figure 4: Public, Private and Total Investment as Percentage of GDP

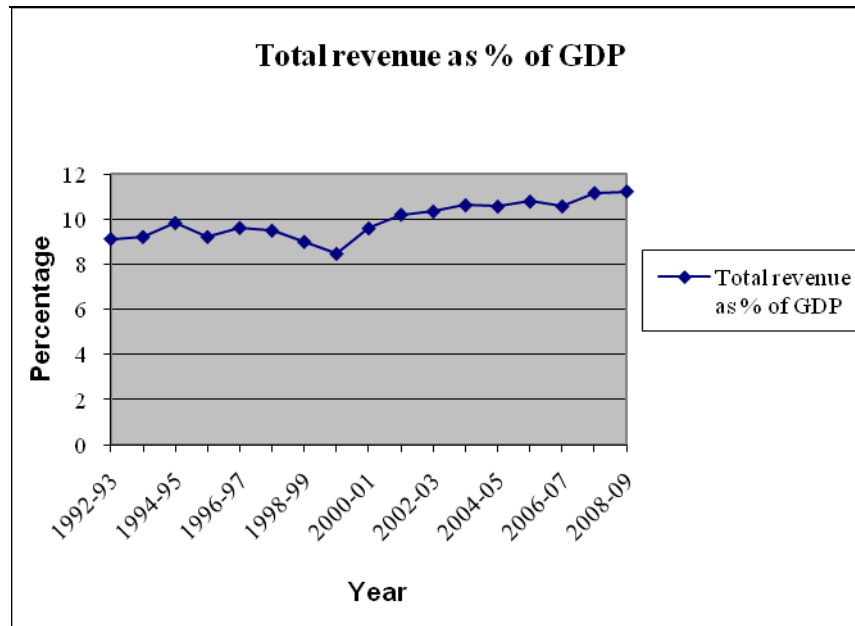
One positive development about the savings-investment scenario is the increase in the share of domestic and national savings (Figure 5). Actually, the share of national savings has registered a substantial increase after 2000-01; and that can be ascribed primarily to the sharp increase in the inflow of remittances in recent years⁷ (an issue to which we shall return below).

Figure 5: Domestic and National Savings and Investment as Percentage of GDP

⁷ It may, of course, be pointed out that remittances get transmitted into incomes of households, and a large part of that component may get spent in a variety of ways. So, it is not correct to treat the entire amount of remittances as savings.

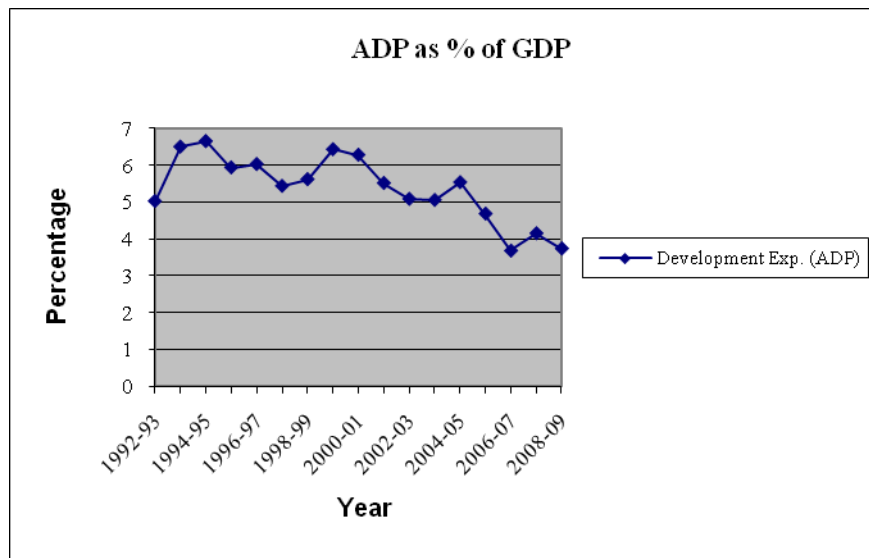
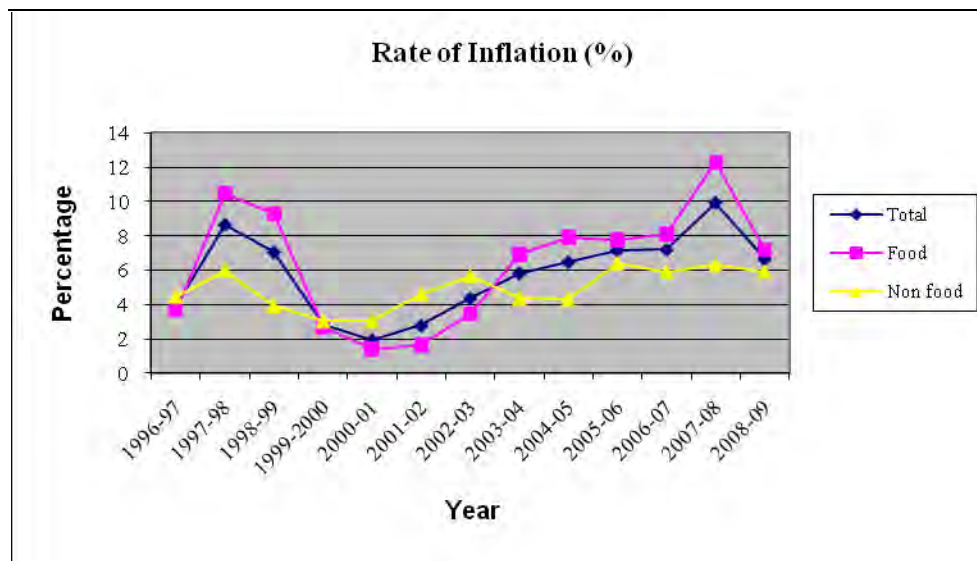
The success of the economy in terms of raising savings and investment has not been matched by a success in raising revenues domestically. As can be seen from Figure 6, total revenue as percentage of GDP is still rather low (less than 12 percent). This is low even compared with other low income countries in the South Asia region. Moreover, despite acceleration in GDP growth since the mid-1990s, there was initially a decline in the share of revenues. While there was some improvement in the early 2000s, the share has ranged between 10 and 12 percent of GDP.

Figure 6: Total Revenue as Percentage of GDP



What is worrisome from the point of view of growth of the economy is the inability of the Annual Development Programme (ADP) to keep pace with the overall size of the economy. In fact, the size of the ADP in relation to the GDP has seen a secular decline since the 2000s (Figure 7). If one looks closely at the budgetary allocations and actual expenditures, one notices that there has often been a failure of expenditures to match the allocations. The latter basically is indicative of the inability of the administration to implement the development programmes.

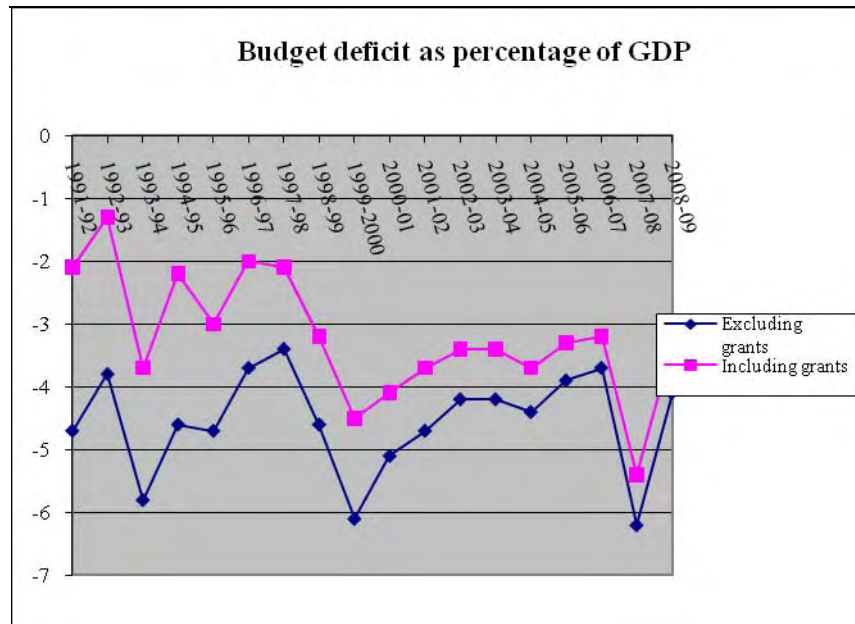
In terms of the conventional indicators of good macroeconomic management, viz., rate of inflation and budgetary balance, the economy of Bangladesh has done quite well during the 2000s. As can be seen from Figure 8, there has been a period of rather low inflation (between 2 and 6 percent) till 2003-04. Since then inflation has crept upwards and crossed the double-digit figure during 2007-08, the year of the global food price crisis. However, non-food inflation remained fairly stable even during that year. And total inflation came down to a little over 6 percent in 2008-09. Considering the fact that the economy of Bangladesh has been growing at moderate rates ranging between 5.5 and 6.5 percent per annum, an overall inflation rate of less than 10 percent can be considered tolerable.

Figure 7: Annual Development Programme as Percentage of GDP**Figure 8: Rate of Inflation: Food, Non-food and Total**

The other conventional indicator of macroeconomic management of an economy is the extent of budget deficit as percentage of GDP. Figure 9 indicates that in that respect also, the macroeconomic performance of the economy of Bangladesh has been quite satisfactory. Only in two out of the last ten years did budget deficit exceed 5 percent of GDP. Of course, it is sometimes pointed out that the modest budget deficit is more a reflection of the inability of the country to fully implement its development programme than real fiscal prudence. However, given that the degree of deficit has remained below 4

percent (if grants are included), it is quite clear that there would be adequate fiscal space for fully utilizing the allocations made for development programmes.

Figure 9: Budget Deficit as Percentage of GDP



Now we turn our attention to variables that are indicators of the strength of the economy to withstand external economic shocks.⁸ We shall look at indicators relating to exports, foreign exchange reserves, and external debt. It may be noted here that foreign exchange reserves equivalent of three months' import bill of a country is considered to be the threshold below which a country's external account becomes precarious. In relation to GDP, foreign exchange reserve should be at least 10 percent of GDP. From the point of view of the ability of a country to meet its debt obligations, foreign exchange reserve should be at least equal to its short-term debt. In order to maintain confidence in a country's currency, its foreign exchange reserve should be at least 20% percent of its broad money (M2). Total external debt of a low income country like Bangladesh, should not exceed 30 percent of its national income. Some data relating to export growth, foreign exchange reserves and external debt are presented in Figures 10 through 17. A number of conclusions may be drawn from the data presented in these figures.

First, during the years prior to the global economic crisis of 2008-09, Bangladesh attained healthy rate of growth of exports. But the rate of growth peaked in 2005-06 and declined even before the crisis. However, there was a sharper decline in the growth of exports in 2008-09; and in 2009-10, the rate of growth was negative for the first time since 2001-02 when the US economy suffered a recession (actual data on 2009-10 will be presented in

⁸ The thresholds for various macroeconomic variables mentioned below are based on empirical analysis of a large number of financial crises in the world over a long period of time provided by Reinhart and Rogoff (2009).

the next section). It thus seems that the global economic crisis simply exacerbated a trend that was already evident before the crisis.

Figure 10: Annual Growth Rate of Exports

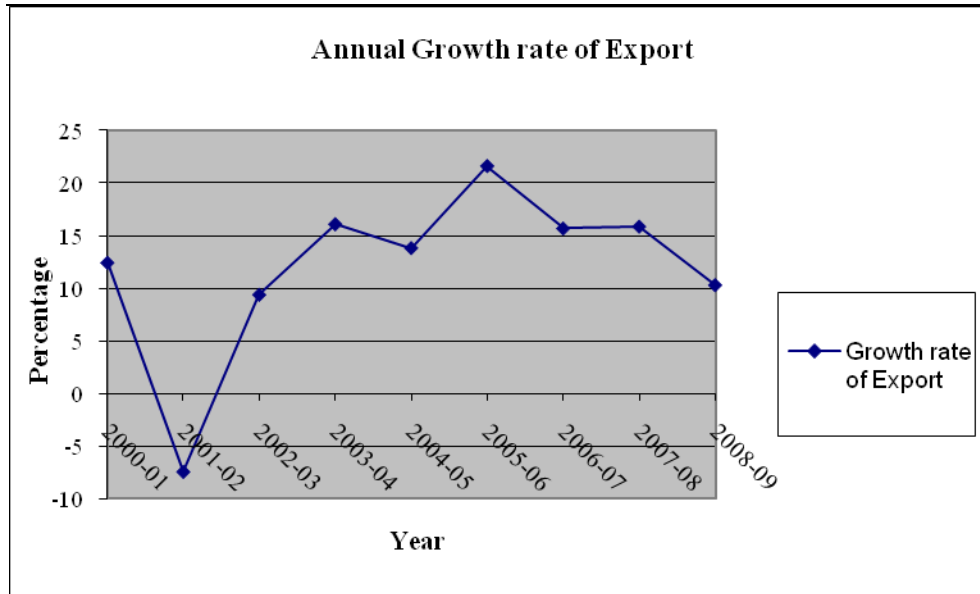


Figure 11 : Foreign Exchange Reserve

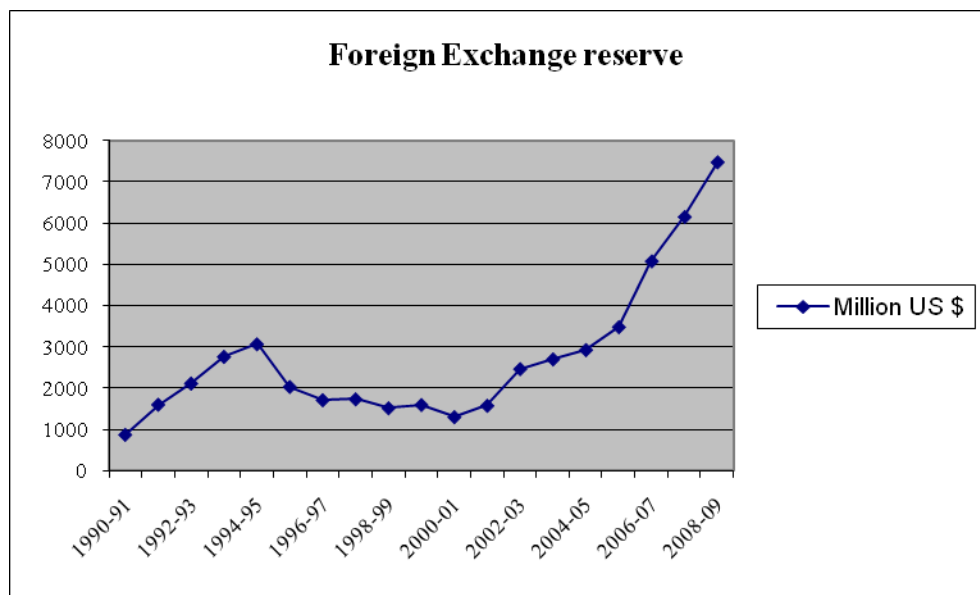


Figure 12 : Foreign Exchange Reserve as Percentage of GDP

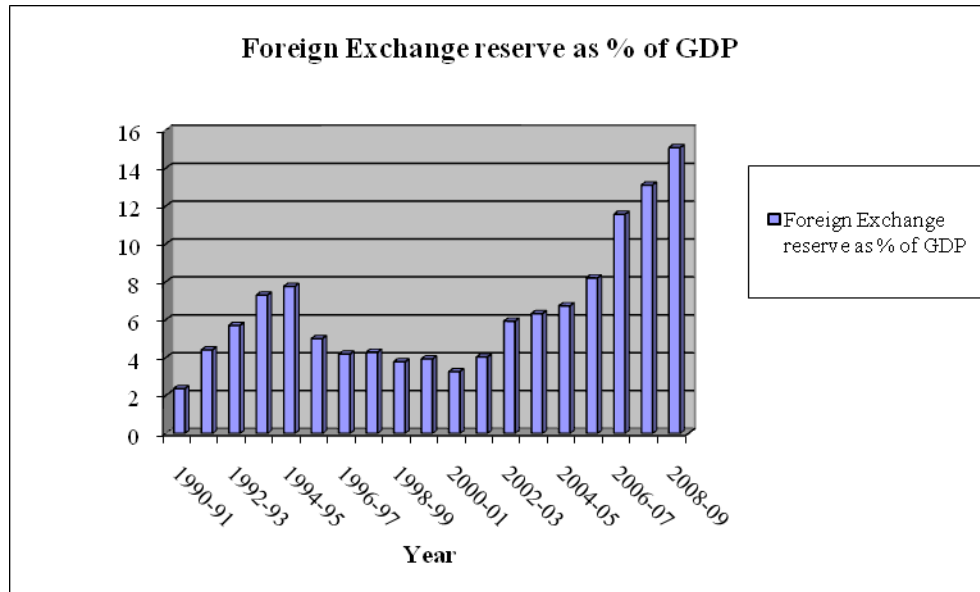


Figure 13 : Months of Import Covered by the Foreign Exchange Reserve

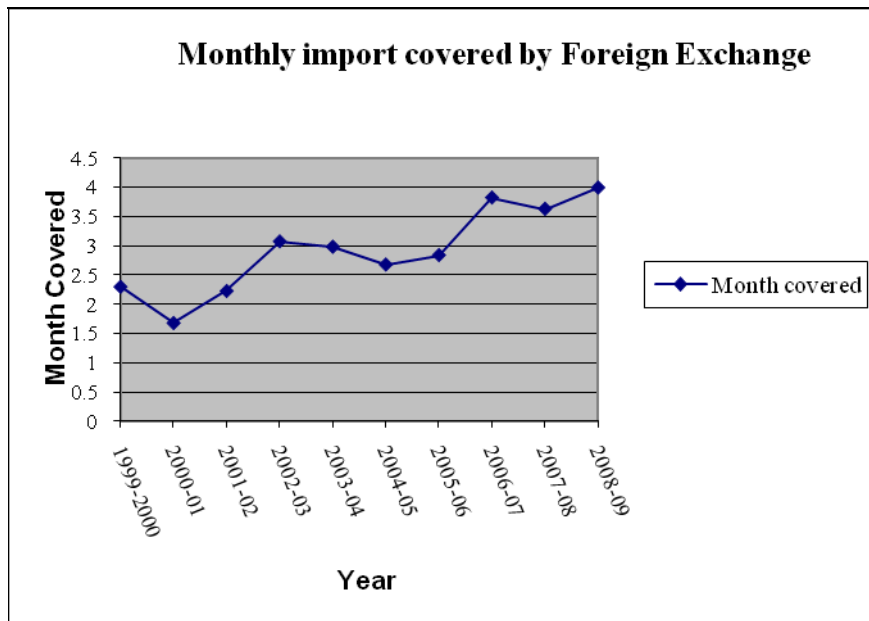


Figure 14 : Foreign Exchange Reserve as Percentage of Broad Money (M2)

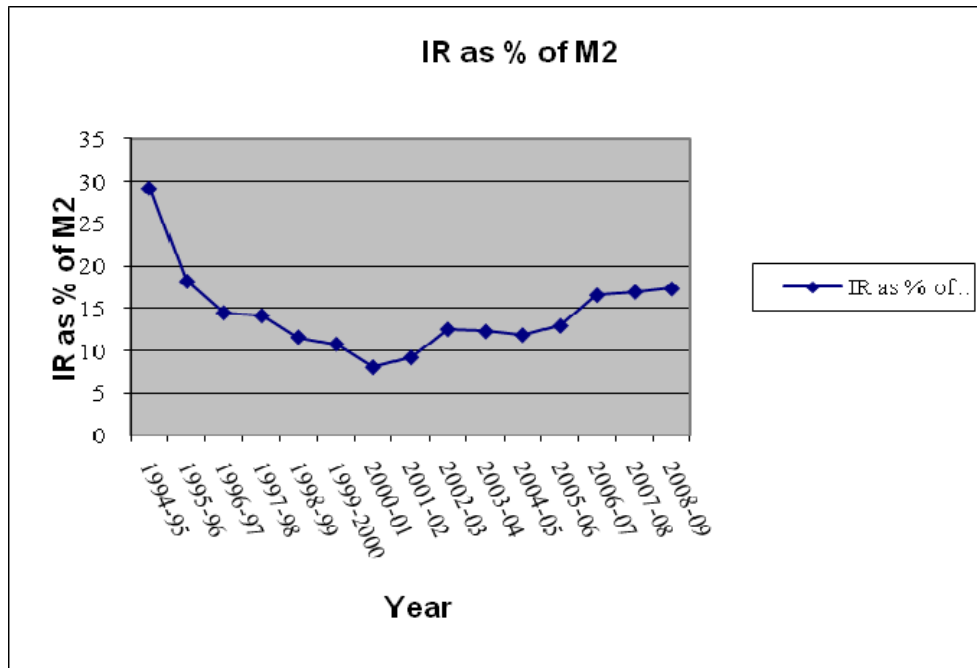


Figure 15 : Ratio of Current Account Balance to GDP

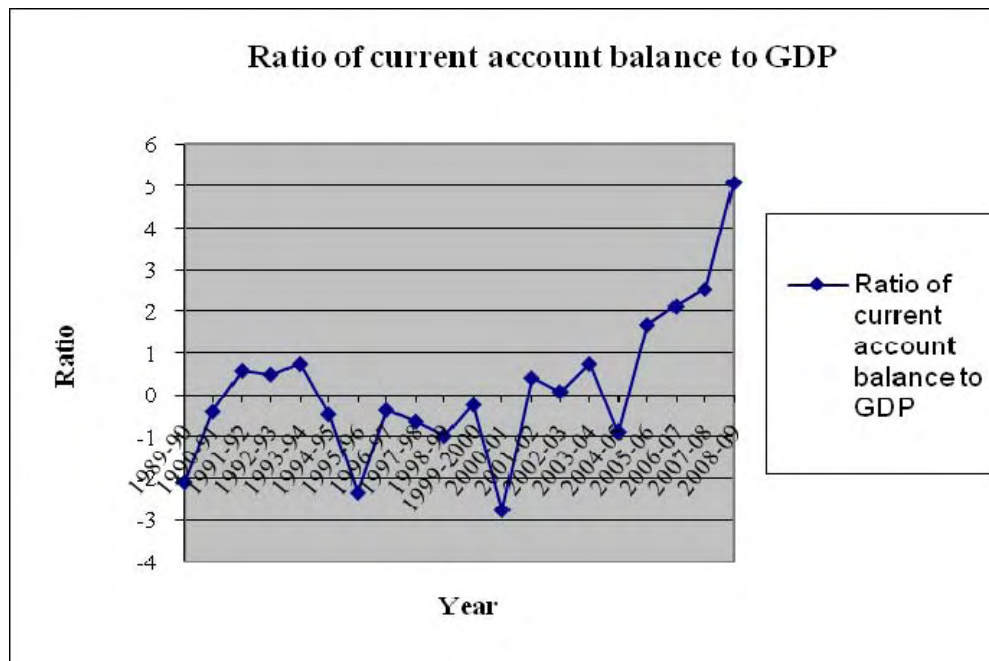
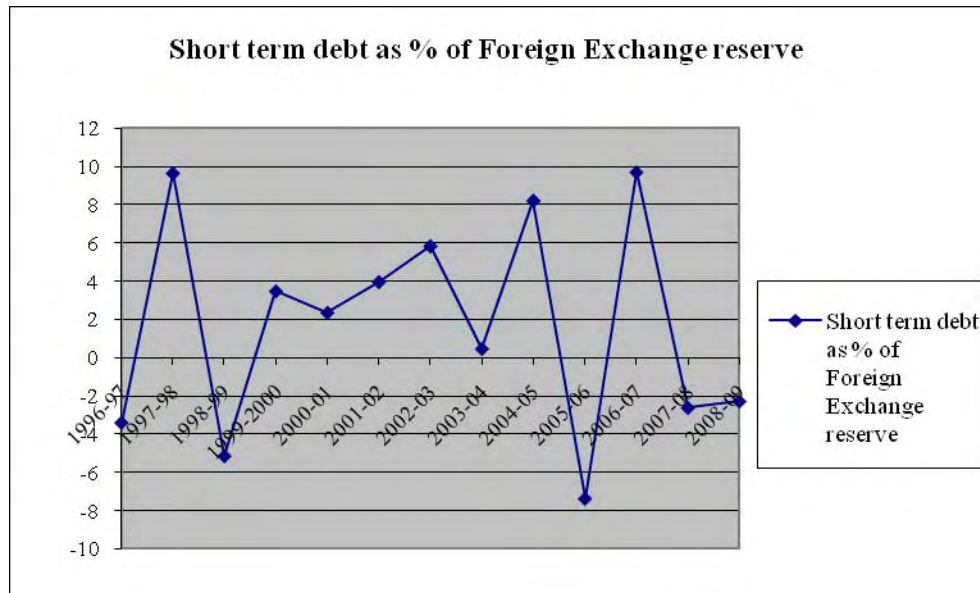
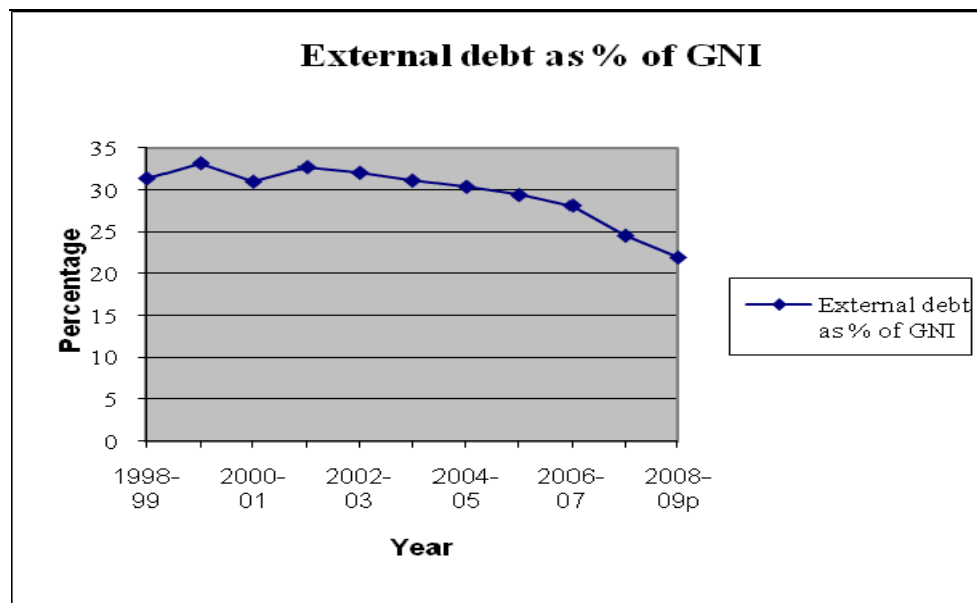


Figure 16 : Short-term Debt as Percentage of Foreign Exchange Reserve**Figure 17 : External Debt as Percentage of GNI**

As for foreign exchange reserves, there has been a sharp upward trend since 2005-06. That was despite a decline in the rate of growth of exports since that year. The major factor that contributed to this is a sharp upward trend in the growth of remittances. However, rather than the absolute amount of the reserve, it needs to be looked at in relation to other macroeconomic variables like import requirement, short term external debt, and money supply. As for import requirement, the reserve has exceeded the

minimum threshold of three months' import bill since 2006-07. It also crossed the threshold of 10 percent of GDP since that year. And the country's short-term debt has always been a small percentage of foreign exchange reserve. But the amount of reserve is still below 20 percent of broad money supply. Except for the last mentioned indicator, the position regarding foreign exchange reserve seems to be reasonably comfortable.

The external debt situation of the country is also sound. Total external debt as percentage of GNI has declined from over 30 percent in the early part of the 2000s to about 22 percent in 2008-09. Moreover, the ratio of short-term debt to foreign exchange reserve is also low.

The ratio of current account balance to GDP has also risen in recent years. However, the sharp rise in this ratio in 2008-09 despite a decline in the growth in exports was perhaps due to a more substantial decline in the growth of imports. During that year, growth of exports and imports were respectively 10.3 percent and 4.1 percent.

Thus, if one considers the external accounts, foreign exchange reserves and the debt situation, the economy of Bangladesh was not only doing well before the global economic crisis started, but the situation remained stable during the crisis period. However, this does not mean that there is scope for complacency. In an increasingly globalizing world, a developing and emerging economy like that of Bangladesh is only likely to be integrated more into the global economy. A real possibility of that happening has opened up with the country being included in the rating exercise of internationally reputed credit rating agencies like Moody's and Standard and Poor's. Rating by both the agencies reflect the robustness of the economy of Bangladesh and the prospects of continued macroeconomic stability.⁹ It will also open up possibilities for accessing capital from the international market. And that is when the debt situation may start changing.¹⁰ It would, therefore, be important for the managers of the economy of Bangladesh to increase the vigilance on developments in the macroeconomic and financial situation by using appropriate indicators (some of which have been mentioned above).¹¹

⁹ It may be noted in this context that the soundness of rating by the credit rating agencies is currently being called in question, both by serious researchers (e.g., Reinhart and Rogoff, 2009) and policy makers.

¹⁰ The experience of the East Asian countries during the economic crisis of 1997-98 may be recalled in this context. Countries like Republic of Korea, Malaysia, Thailand and Indonesia which were once dubbed as "tigers" (because of their strong economic performance for over a decade) suddenly saw their currencies plunging, foreign capital inflow becoming negative, inflation soaring and their entire economies collapsing. More recent experiences of developed countries like Ireland, Greece, Portugal, and Spain should also serve to illustrate how quickly a country's economy can face financial and economic crisis.

¹¹ In addition to the indicators for which data have been presented and analyzed above, data should be collected systematically on two other indicators, viz., real estate prices and stock prices.

3. THE GLOBAL ECONOMIC CRISIS OF 2008-09: IMPACT AND RESPONSE

3.1 The Crisis and Recovery

It is by now well-known that the financial crisis that started in the US (which, in turn, was sparked off by the sub prime credit crisis in that country) in 2007 led to the global economic crisis and the “great recession” of 2008-09 which was the most severe economic downturn since the great depression of the 1930s. With almost all the major developed economies of the world going through deep recession, the global economy registered negative growth in 2009. As for the developing countries, although their economies did not go into recession, they were nevertheless adversely affected by the downturn in the advanced economies. However, the degree to which they were affected varied, depending on the structure of their economies and the extent of their integration into the global economy.¹²

Thanks to the quick response to the crisis through stimulus programmes of various sizes put in place by the major developed countries, their economies started recovering quickly, though the timing and pace of recovery varied. Indeed, according to the OECD and IMF, recovery has been quicker and stronger than was expected. According to the IMF’s World Economic Outlook of October 2010, the global output growth for 2010 is expected to be 4.8 percent, and the advanced economies as a whole are projected to attain a growth 2.7 percent in 2010 compared to a decline of 0.6 percent and 3.2 percent respectively in 2009 (Table 1). More importantly, the US economy (which remains a major engine of growth for the global economy as a whole) started to recover quickly. Of course, the pace of recovery in USA slowed down in the course of 2010, and IMF’s October report projected a growth of 2.6 percent for the year (as opposed to 3.1 percent projected in the April report). The major developing economies, viz., those of China and India, have also played a major role in the quick and strong recovery attained by the global economy towards the last quarter of 2009 and in the first quarter of 2010. Indeed, China’s economy is projected to regain the double-digit growth rate in 2010 and India is also expected to grow at 9.7 percent.

One weak spot that remains in the global economy is the Euro zone and the U.K. where recovery has been less strong and the prospects also remain uncertain. The debt crisis that some countries (Greece being the first one to face it and to need a major bail out) are going through is raising further doubts about the prospects of a strong and sustained recovery in Europe. Many of the countries in the region are saddled with the burdens of high budget deficit and debt and are adopting a strategy of fiscal tightening by reducing expenditures. Such a situation does not augur well for the nascent recovery that their economies started to see.

Another point to note about the recovery is the lag with which the labour markets are responding.¹³ In USA, for example, job creation on a significant scale started only in March 2010 although the economy turned around in the last quarter of 2009. And despite

¹² For an excellent analysis of the causes and impact of the global economic crisis and policy responses to it, see Verick and Islam (2010).

¹³ This has happened in the case of other recoveries in the past in various countries. For a good historical account, see Reinhart and Rogoff (2009). For an analysis of possible factors responsible for this lag, see Islam, Rizwanul (2010a).

the substantial number of jobs created in March-April 2010, unemployment rate actually registered a slight increase (which could perhaps be due to the numbers returning to the labour force outstripping the number of jobs created). Unemployment in the Euro zone and U.K. also has not declined. This will have implications for the strength and continuity of the process of recovery because the strength of consumer demand depends critically on consumer confidence which in turn is influenced by prospects of employment and income.¹⁴

TABLE 1
GDP Growth in Selected Countries and Regions, 2008 and 2009 and Projections for 2010 and 2011

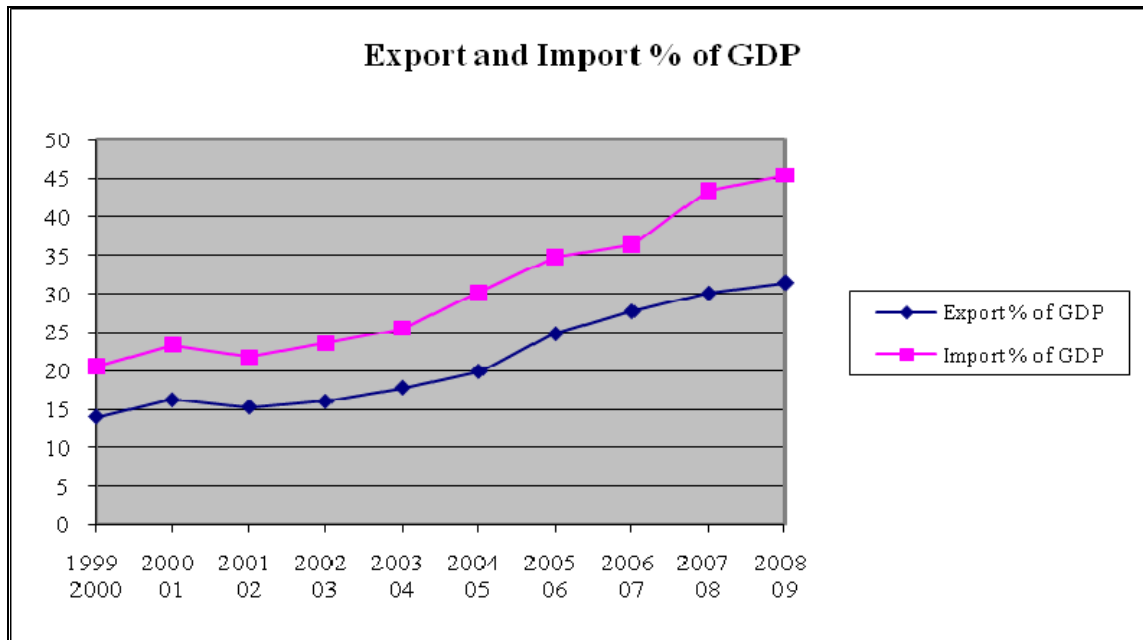
Countries/Regions	2008	2009	2010 (Projection)	2011 (Projection)
World Output	2.8	-0.6	4.8	4.2
Advanced Economies	0.2	-3.2	2.7	2.2
United States	0.0	-2.6	2.6	2.3
Euro Area	0.5	-4.1	1.7	1.5
Germany	1.0	-4.7	3.3	2.0
France	0.1	-2.5	1.6	1.6
Japan	-1.2	-5.2	2.8	1.5
United Kingdom	-0.1	-4.9	1.7	2.0
China	9.6	9.1	10.5	9.6
India	6.4	5.7	9.7	8.4
Middle East and North Africa	5.0	2.0	4.1	5.1

Source: IMF, *World Economic Outlook*, October 2010

3.2. The Channels of Transmission and the Impact of the Global Economic Crisis on Bangladesh Economy

The major channels through which the economy of Bangladesh is linked to the global economy include trade, international migration of labour and flow of remittances, and capital flows. The country adopted a policy of trade liberalization since the 1980s, and the economy has become increasingly open over time. Both exports and imports as percentage of GDP increased substantially since 2002-03. Exports as percentage of GDP exceeded 30 percent in 2008-09, and the annual growth rate of exports increased from 9.82 percent during 1995-2000 to 11.15 percent during 2000-07. In terms of the direction of exports, the dependence on USA came down from 34 percent in 1995 to 25 percent in 2006 while the share of exports going to EU countries increased from 44.8 percent in 1995 to 46.8 percent in 2006. Reduced dependence on the US market obviously has implications for the degree to which exports would be affected by a recession in the US economy. However, the global economic crisis of 2008-09 was not limited to the US; the EU countries were also seriously affected. And since Bangladesh has become more dependent on the EU market, weakness in the latter would have a negative effect on exports from Bangladesh.

¹⁴ ILS (2010) points out that “labour market recession” is worsening the social outlook in many countries. See, also ILO (2010).

Figure 18: Export and Imports as Percentage of GDP

As mentioned already (in Section 2), the growth of exports was declining before the global economic crisis and that trend was exacerbated by the impact of the crisis. However, till 2008-09, the export sector of Bangladesh was able to demonstrate a degree of resilience and was able to maintain positive growth (when other major exporting countries were experiencing negative growth in exports). And that was possible mainly due to the robustness of the ready made garments sector which is the major export industry of Bangladesh.¹⁵ Other export items like jute and jute goods, leather, frozen food, ceramic goods, etc. experienced negative growth in that year (Table 2). The decline in export growth continued during 2009-10, and total exports experienced the first negative growth during the first quarter of that year (i.e., during July-September 2009). However, there was a turnaround and positive growth during October-December 2009 (see Figure 19). But the growth in the exports of ready made garments continued to decline in the second and third quarters of 2009-10 (i.e., during October-December 2009 and January-March 2010).¹⁶ In fact, exports of this sector recorded negative growth in early 2010, although there has been strong recovery since then.

¹⁵ It may be noted in this context that the ability of the RMG sector to maintain export growth came at a cost. A large part of the export growth was accounted for by increase in volume rather than price. In fact, the exporters offered discounts and took significant cuts in their profit margins.

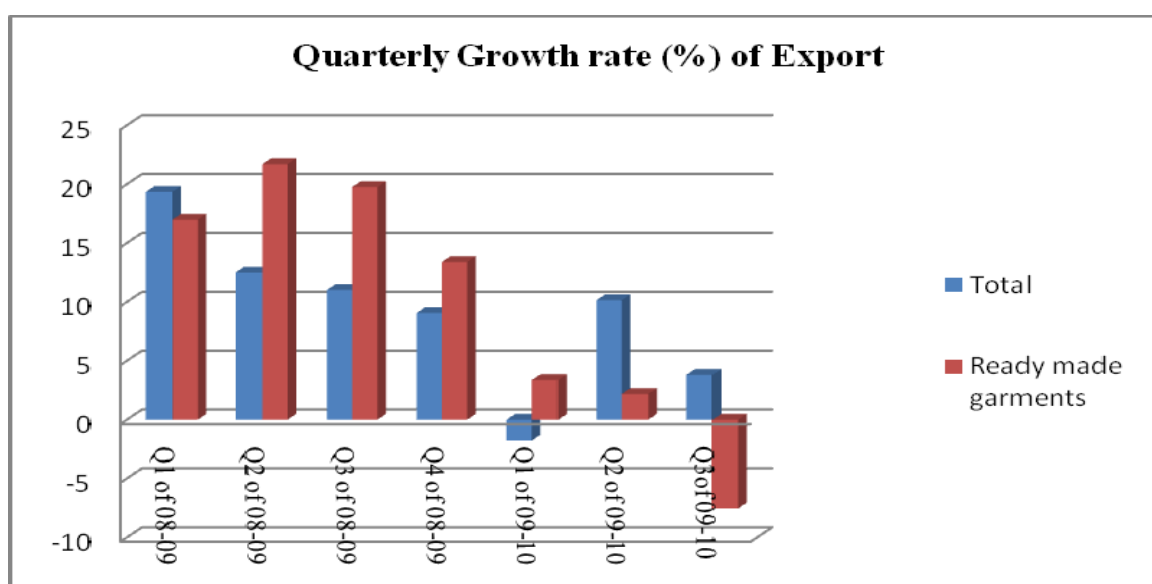
¹⁶ See Rahman et al. (2009) for a detailed account of export growth up to 2008-09 and how specific sectors were affected by the decline in demand in export markets.

TABLE 2
Quarterly Growth Rate (%) of Exports, 2007-08, 2008-09, and 2009-10

Export Items	Q1 of 08-09 over Q1 of 07-08	Q2 of 08-09 over Q2 of 07-08	Q3 of 08-09 over Q3 of 07-08	Q4 of 08-09 over Q4 of 07-08	Q1 of 09-10 over Q1 of 08-09	Q2 of 09-10 over Q2 of 08-09	Q3 of 09-10 over Q3 of 08-09
Total	19.35	12.50	11.01	9.06	-1.77	10.14	3.8
Ready made garments	16.99	21.70	19.76	13.40	3.37	2.18	-7.54
Frozen food (Fish and Shrimps)	-2.43	-21.18	-34.31	-19.33	-9.14	15.81	-2.31
Jute and jute goods	-6.73	-2.24	-21.30	-8.18	16.80	58.94	59.79
Leather	-2.88	-14.29	-21.54	-36.10	-10.71	32.49	13.73

Source: Monthly Economic Trends, Bangladesh Bank, May 2010

Figure 19: Quarterly Growth of Total Exports and Exports of Ready Made Garments, 2008-09 and 2009-10



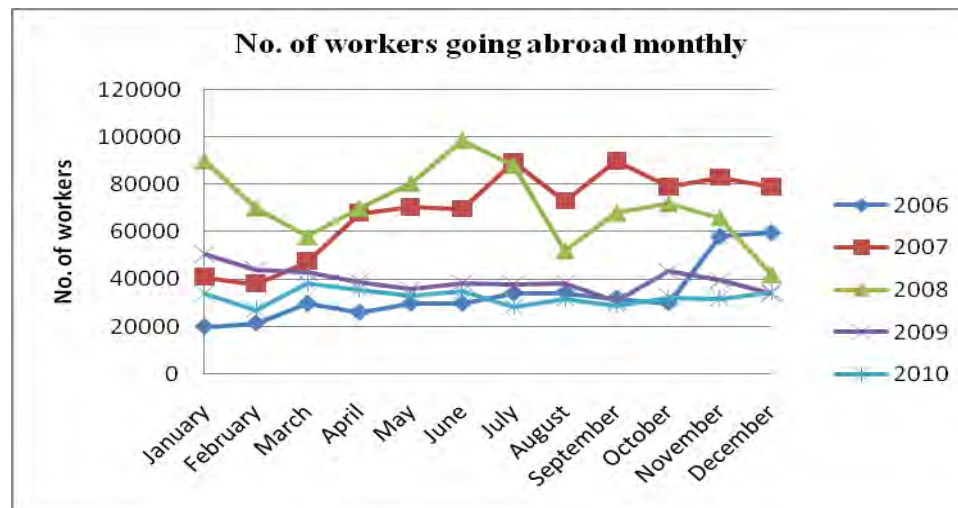
Several factors may have been responsible for the disappointing performance of the export sector at a time when the global economy started its recovery and demand in the export markets could be expected to have improved. First, EU countries are now the major destination of ready made garments exported by Bangladesh; and recovery in that region has been slower than in the USA. In fact, not only that recovery has been slower, given the debt crisis faced by a number of countries in the region and its knock-on effect, the outlook for the region now looks uncertain. Moreover, given the depreciation of Euro in early 2010, the exchange rate between Taka and Euro could go against the exporters unless appropriate measures are taken to correct for this. All these factors may have

implications for the growth of RMG exports of Bangladesh to the EU countries, at least in the near future.

Second, when the global economic crisis started, the 7.5 percent cap on the growth of Chinese export of apparels to the US market was still in force. So, the stimulus package adopted by China focused more on encouraging the upper end products and industries other than garments. However, the cap was lifted from 1 January 2009, and since then China has reversed its policy of discouraging exports of low-end garments which implies renewed competition for competing products from Bangladesh.

As mentioned earlier, Bangladesh is well integrated into the global economy through international migration and remittances sent by migrant workers. Since the countries that serve as major destinations for such workers, viz., those in the Middle East, Malaysia, and Republic of Korea were adversely affected by the economic downturn in the developed countries, their demand for expatriate workers naturally fell. That in turn could have had a negative impact on the flow of migrant workers from the sending countries including Bangladesh. The number of migrant workers going abroad from Bangladesh declined sharply in 2009; compared to over 800,000 in 2008, the number for 2009 was less than 500,000. The number fell further in 2010 to less than 400,000. In fact, the monthly figures show a sharp decline after October 2009 and continuation of that trend throughout 2010 (Figure 20).

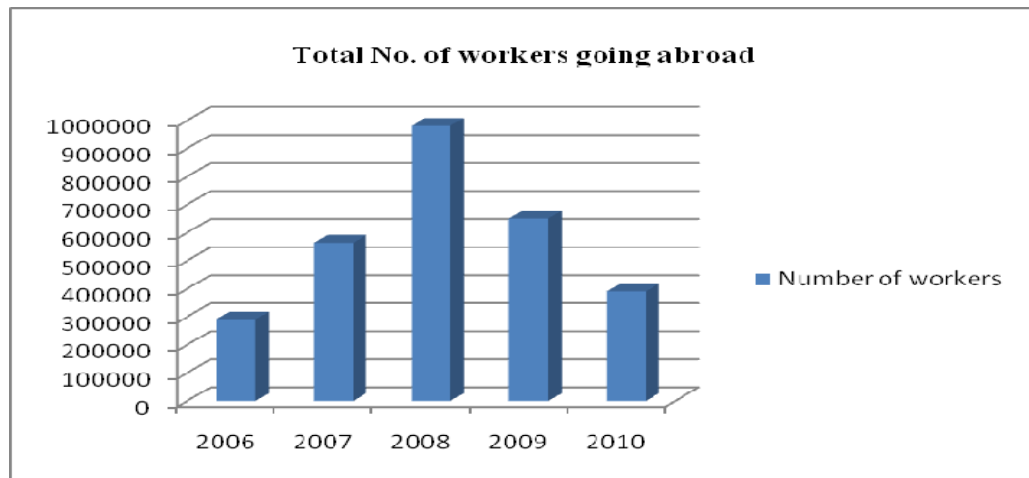
Figure 20 : Numbers of Workers Going Abroad Per Month, 2006 to 2010



It may be noted in this context that the number of workers going abroad exceeded 800,000 only in 2007 and 2008; before 2007, the numbers were much smaller--varying between two and four hundred thousand per year (Figure 21). So, whether the decline in numbers from those of 2007 and 2008 really represents the effect of the global economic crisis is a moot question. One could argue that the figures for 2009 and 2010 represent the longer term average. Moreover, non-economic factors (including the dubious role played by recruiting agencies of both the sending and receiving countries) were

responsible, at least partly, for a decline in the number of workers recruited by countries like Malaysia and Saudi Arabia.

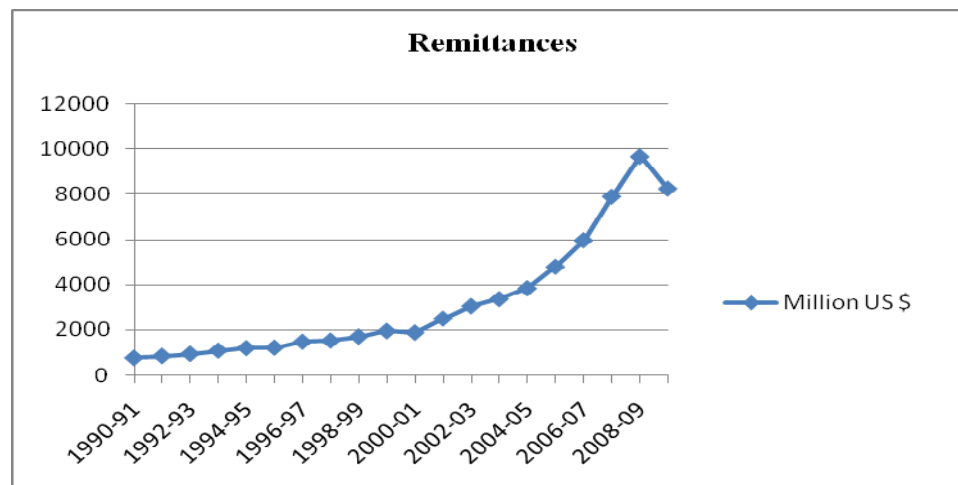
Figure 21 : Number of Workers Going Abroad Annually, 2006 to 2010



Source: Migrant Welfare and Foreign Employment Ministry, Manpower, Employment and Training Bureau and Bangladesh Bank

The sharp decline in number of workers going abroad, however, was not reflected in the flow of remittances which continued its upward trend (Figure 22). Indeed, in 2009, remittance received crossed the US\$10 billion mark. Of course, there was a decline in the amount received in 2010. In the absence of an analysis of the determinants of the flow of remittances to Bangladesh, it is possible only to speculate about the factors that contributed to the growth of remittances. But what is important is that remittances continued to remain the second most important source foreign exchange earnings for Bangladesh (after the export of ready made garments) and to play a major role in the macroeconomy of Bangladesh. The comfortable situation regarding foreign exchange reserves owes a great deal to the continued flow of remittances at a high level.

Figure 22: The Annual Flow of Remittances to Bangladesh



Source: Bangladesh Economic Review, 2010

As for capital flow, the capital market of Bangladesh is not very strongly linked to the global capital market. In 2009, foreign investment accounted for only 2.48 percent of total market capitalization (Rahman, et al., 2009). Bangladesh is not a major destination of foreign direct investment (FDI), and there has been no noticeable trend in the flow of FDI (Table 3). It exceeded US Dollar 1 billion in 2008. In 2009, the flow of FDI declined sharply and fell below the level attained 2006. The decline was mainly due to declines in telecommunication and ready made garment sectors.¹⁷ The share of FDI in the gross fixed capital formation of the country is rather low. It rose from 4.1 percent during 1995-2005 to 5.7 percent in 2008, and then declined to 3.3 percent in 2009 (UNCTAD, 2010).

TABLE 3
Inflow of Foreign Direct Investment in Bangladesh, 2000-2009

Year	Amount (million US\$)
2000	579
2002	328
2003	350
2004	460
2005	692
2006	793
2007	666
2008	1,086
2009 (January to June)	358

Source: UNCTAD (2008, 2009) and *The Daily Star*, May 16, 2010 (for the figure for 2009)

3.3. Impact on the Labour Market

The above analysis of data relating to the transmission channels of the impact of the global economic crisis indicates that the economy of Bangladesh was not spared of the adverse effects. When an economy faces such external shocks, its ripple effects get quickly transmitted to the labour market. However, lack of up to date data makes it difficult to provide concrete evidence of such effects. The most recent labour force survey dates back to 2005-06. There was an Employment Monitoring Survey in 2009. But given the difference in the methodology and coverage of the two surveys, direct comparison of its results with those of the LFS may not be appropriate. However, by combining these data with anecdotal evidence on what has been happening in the labour market, it may be possible to arrive at some conclusions on the impact of the crisis on employment and labour market.

Labour markets may adjust to external economic shocks through quantity and price mechanisms. During the global economic crisis of 2008-09, the labour market in Bangladesh appears to have adjusted mainly through the quantity mechanism. Although open unemployment may not be of much significance for an economy like that of Bangladesh (especially given the definition and methodology used to measure it), it may nevertheless be useful to start from there. After having remained between 4.2 percent and 4.3 percent since 1999-2000, the rate of open unemployment increased to 5.1 percent

¹⁷ *The Daily Star*, May 16, 2010.

in 2009. But more significantly, the rate of underemployment (defined in terms of time, using 35 hours per week as the cut-off point) increased from 24.5 percent in 2005-06 to 28.7 percent in 2009. The increase in underemployment is a clear reason for worry.

A clearer picture of the effect of the global economic crisis on the labour market emerges from discussions with representatives of employers and workers. The following came out of such discussions conducted during a field visit by one of the present authors in May 2010.

- There have been substantial job losses in the major export oriented industries like ready made garments, jute and jute goods, frozen foods, etc. In the RMG sector, out of some 12,000 units who are mostly engaged in outsourcing work from the bigger enterprises approximately 40 percent were closed down and the rest were also affected adversely during 2008-09. They were mostly unregistered units employing 5 to 20 workers. The job losses that occurred in this segment of the industry can be easily gauged. However, being unregistered and small, what happens in such a segment goes mostly unnoticed. In the jute goods sector, some 50,000 (mostly those who are engaged on a daily basis) workers were laid off. The frozen food sector also resorted to lay off.
- It was the temporary and contract workers in the formal sectors who were the first to be retrenched. On the other hand, many enterprises are increasingly resorting to contract based and temporary workers.¹⁸ In other words, there has been a change in the structure of employment towards more precarious forms of employment.
- The adverse effect of the economic crisis has spread to the informal economy because in the absence of social protection measures, workers retrenched from the formal sectors are having to eke out a living from informal sector activities.
- There is hardly any social protection measure for workers even in the formal sectors. Even severance pay appears to be absent, especially in the new export oriented industries.

An earlier study (Rahman et al., 2009) also pointed towards quantity adjustment in terms of retrenchments and lay-offs. Based on a survey of entrepreneurs, that study revealed that 8.3 percent of them had resorted to laying off workers and another 5.6 percent had to close down their production units altogether. Another 11.1 percent had said that they would lay off workers or close down production units in case there was a worsening of the situation. New recruitment in major export oriented sectors had also slowed down considerably.

Although the quantitative mechanism of adjustment was predominant, the price mechanism was not entirely absent. While money wages were not reduced, the survey of enterprises reported in Rahman et al. (2009) revealed that the workers' fringe benefits had been reduced. Moreover, given the slowdown in the growth or negative growth in some export oriented sectors, the rate of capacity utilization may have declined, leading to a decline in the average hours worked, and consequently, the take home pay of

¹⁸ It is difficult to understand the reasons for this trend because labour market regulations in terms of conditions for firing and severance benefits are not stringent anyway. At any rate this shows the challenges involved in the journey towards achieving the MDG 1B targets.

workers. If one adds the rate of inflation to all that, the possibility of a decline in real wages and earnings cannot be ruled out. And the survey of entrepreneurs mentioned above revealed that 3.7 percent of them were prepared to resort to wage cut in the event of a further deepening of the global recession. The workers also expressed their preparedness to accept temporary wage cuts instead of facing retrenchment.

Discussions during the fieldwork by one of the authors of the present study also brought out that the economic crisis was used as a pretext to postpone attention to workers' demands for wage adjustment and to suppress basic workers' rights (e.g., the right to form associations and bargain collectively). For example, in the RMG industry, there has been no wage adjustment since 2006 although there has been sharp increases in the prices of basic consumer goods since then. It is only in the second half of 2010 that a decision was taken by the government to adjust the minimum wages in the readymade garments industry.

As mentioned at the beginning of this paper, the global economic crisis came soon after the crisis caused by high fuel and food prices which hit the developing countries, and Bangladesh was no exception. The real incomes of the poor, especially of net buyers of food grains (e.g., wage workers), had suffered a decline due to high food prices (Islam and Buckley, 2009). Thus, the adverse effects of the economic crisis on the labour market resulted in a double whammy for the poor.

The adverse effects of the global economic crisis on the labour market of Bangladesh would naturally have implications for the country's progress towards achieving the MDG 1B targets relating to employment. According to a progress report brought out jointly by the Government of Bangladesh and the UNDP (Government of Bangladesh and UNDP, 2008), the employment to population ratio for 2015 is projected to be 65 percent, although the target is "employment for all" by then.¹⁹ Given the worsening of the labour market situation during 2008-09, that target would appear to be even more distant. Another indicator of the MDG 1B target is the proportion of own account workers and contributing family workers in total employment. In that respect also, Bangladesh has a long way to go, and the progress in recent years has not been in the right direction. Data presented in Table 4 show that while there has been a slight decline in the proportion of self-employed and own account workers between 1999-2000 and 2005-06, the proportion of unpaid family helper increased sharply – indicating that many of the own-account workers may simply have reverted to becoming unpaid family helper. In fact, if the proportion of employees is regarded as a proxy to regular employment, the situation appears to have worsened. What is even worse is the decline in the proportion of day labourers. Even though that's a precarious form of employment, it possibly serves as an indicator of the availability of wage employment and the economy's ability to create jobs of some kind. Clearly, despite moderate economic growth of between 5 percent and 6.5 percent for around a decade, the labour market does not seem to have responded strongly enough to make a real dent into its structure in the right direction. That would naturally raise questions about the pattern of growth that the economy of Bangladesh had been

¹⁹ It may be noted in this regard that employment-to-population ratio is generally expected to lie between 50 and 75 per cent. With a ratio of 58.6 per cent (in 2006) Bangladesh is doing better than the South Asian average of 56.7 per cent (ILO, 2009), but has a big gap to fill.

attaining.²⁰ And the adverse effect of the global economic crisis mentioned above must have made the situation worse. A weak labour market with slower pace of hiring is only likely to reduce the employment to population ratio. And if one notes that the slowdown is affecting mainly the export oriented industries with high proportion of female employment, it would not be difficult to see that women's employment to population ratio, which is already much lower than men's, is likely to be adversely affected. Moreover, a slowdown in hiring and retrenchment in the formal sectors of the economy, by pushing larger numbers towards the informal economy, is only likely to lead to an increase in the proportion of own account workers and unpaid family workers. The conclusion, therefore, would be inescapable that the adverse effects of the global economic crisis on the labour market of Bangladesh is going to make it harder for the country to achieve the MDG 1B targets.

TABLE 4
Changes in the Structure of Employment by Status in Employment

Status	1999-2000	2002-03	2005-06
Self-employed/own account workers	46.67	44.70	41.98
Employee	16.67	13.77	13.92
Unpaid family helper	12.05	18.28	21.73
Day labourers	24.36	20.09	18.14

Source: Calculated from Bangladesh Bureau of Statistics: Labour Force Survey, various years.

3.4. The Policy Response and the “Stimulus Packages”

The policy makers in Bangladesh adopted a number of measures in response to the possible adverse effects of the global economic crisis on the economy of Bangladesh. The strategy adopted during the initial stages of the crisis was to monitor the financial situation and safeguard the foreign exchange reserves of Bangladesh, and ensure smooth flow of finance for exports and imports as well as to the productive sectors of the economy, especially agriculture and SMEs.²¹ It was only in April 2009 that the first package of policy support, fiscal measures, and financial measures were announced which was followed by a second package of such measures within the framework of the budget of 2009-10 (announced in June 2009).²² The basic objective of these measures (commonly dubbed as “stimulus package”) was to safeguard the economy of Bangladesh from the adverse effects of the great recession that the global economy was going through. And that was sought to be achieved by maintaining export growth through a variety of measures to support export oriented industries and ensuring a sustained flow of remittances from workers abroad. The first package was worth Tk. 34.2 billion (US\$495.22 million, or 0.55 percent of the GDP of 2008-09) while the amount allocated for the second was Tk. 50 billion (US\$724 million, or about 0.8 percent of GDP).

²⁰ For an analysis of this issue, see Islam (2009).

²¹ For a detailed account of the measures taken in that respect, see (Rahman, et al., 2009).

²² It may be noted at this point that Bangladesh was under a “caretaker government” during 2007 and 2008, and an elected government took over power in January 2009.

Following are some of the highlights of the stimulus packages:

Fiscal measures

- Increase in cash incentives for specific export oriented sectors, viz., jute goods, leather products, frozen fish and shrimps.
- New cash incentive for crust leather and ship building industries.
- Additional subsidy for exports to new markets (outside USA, EU and Canada).
- Continuation of existing cash incentives for other sectors (including the RMG industry).
- Increase in allocation for social safety nets.

Financial measures

- Extension of export credit facility at concessional rates (7%) to all export items.
- Extension of the repayment period from 90 days to 120 days.
- Facility to reschedule loans to the textile sector and reduction of interest rate from 13% to 10%.
- Measures (including review of the interest structure) to ensure flow of credit to agriculture and small enterprises.
- Encouraging and instructing commercial banks to reduce charges.

Policy support

- Relaxing conditions of loan rescheduling for exporters and producers of yarn.
- Refinancing facility for commercial banks to support export credit.
- Increase of the Export Development Fund from US\$100 million to US\$150 million and increase of the credit limit from US\$1 million to US\$1.5 million.
- Increase in the allocation for SME fund from US\$72.4 million (Tk. 500 crore) to US\$86.9 million (Tk 600 crore).
- Establishment of a fund for investment promotion and financing facilities (Tk. 400 crore).
- Increase in the amount allocated for house building fund by Tk 200 crore to Tk. 500 crore.
- Food ration at subsidized prices for workers in the RMG sector.
- Establishment of a Skill Development Fund (with an allocation of US\$10.1 million) with a view to providing training support and exploring new market for migrant workers.

Policies for poverty reduction and social safety nets

- Additional allocation for Vulnerable Group Feeding (VGF) programme.
- Strengthening of the 100-day employment creation programme by focusing on the extreme poor and geographic regions that are prone to food shortage and starvation.
- Special efforts to improve the operation of various micro credit providing institutions (e.g., PKSF).
- Increase in the amount and coverage under programmes for old age assistance, destitute women, insolvent freedom fighters, disabled, and orphans.

In the absence of any report and assessment of the implementation of the stimulus packages mentioned above, it is difficult to say anything about the impact that the various measures had on the performance of the economy and the extent to which the segments of the economy that were adversely affected by the global economic crisis benefited from them. However, a few general observations may be made about the contents of the package.

First, the government claims that the financial part of the package has been implemented fully. Hence the cash incentive part of the package should have benefited the targeted sectors according to the design of the measures. But the size of the fiscal part of the stimulus package was rather small in relation to the country's GDP.²³ So, it would be unrealistic to expect a major impact from such measures. But in designing its response, the government put more emphasis on the policy support measures vis-à-vis the fiscal and measures. It would, therefore, be interesting to see if those measures were able to provide the needed support to the economic activities that were adversely affected during the economic crisis²⁴.

Second, the issue of employment did not receive adequate attention in the government's policy response.²⁵ Except for the measures of social safety nets (which represented either continuation or strengthening and restructuring of existing programmes), there was very little in the stimulus packages to support the domestic labour market. More specifically, there was no provision for possible support to the workers who were retrenched from

²³ While China's stimulus package amounted to a staggering 13 percent of the country's GDP, Malaysia, Philippines and Thailand allocated 7.9 percent, 3.7 percent and 2.8 percent respectively. At the other extreme, India and Vietnam allocated only 0.9 percent and 0.3 percent respectively of their GDP for their stimulus packages. See (IILS, 2009) for data and analysis of the responses of various countries to the global economic crisis.

²⁴ In fact, there has been no rigorous analysis of the implementation and impact of the various measures adopted in response to the crisis. In order to derive lessons for the future, it is important to undertake such an analysis.

²⁵ In an interview with a newspaper in Switzerland (*Tribune de Genève*, 3 juin 2010), Nobel Laureate Professor Amartya Sen has said clearly that unemployment is one of the three major problems to be addressed (the other two being economy and finance) and that we must find policies that concentrate positively on the issue. He went on to say that it would be a mistake to ignore the issue and expressed the hope that such an error will be avoided even though the pressure for deficit reduction is higher than support to employment. While he may have made these comments in the context of the situation prevailing in the developed countries, it would be relevant for countries like Bangladesh as well.

functioning enterprises or who lost jobs when enterprises went out of business. Most industries (even those in the formal sector) do not have any provision of severance pay; and nothing was done to introduce such provision for workers who may have lost jobs due to the adverse effects of the economic crisis. The issues of postponing retrenchment and of severance pay could have been linked to the augmented cash subsidy that was provided.

Third, the stimulus package could have contained a component on investment in infrastructure. This would have been an effective means of creating productive employment directly and indirectly (through the multiplier effect) and producing a “crowding in effect” for investment in other sectors of the economy.²⁶

Fourth, implementation of even the minor measures (e.g., food ration for workers in the RMG sector) that were introduced appears to be rather weak. Although there was some allocation for a Skill Development Fund, it is not clear what the exact nature of the scheme was and the extent to which it was implemented. While such a fund could serve the general purpose of upgrading the level of skills of workers, during periods of economic crisis, such a fund could be used to provide retraining and redeployment facilities for retrenched workers.

Fifth, the adverse effect of the economic crisis seems to have been used as the ground for postponing attention to workers’ demands for wage adjustment and for suppressing their basic rights, e.g., freedom of association and collective bargaining. It may be recalled in this context that the last time the minimum wage structure of the RMG industry was revised was in 2006 (which also was in the wake of a serious workers’ unrest); and since then sharp increases in the prices of food grains in 2007-08 have eroded the purchasing power of the poor in general and urban workers in particular. Although prices have come down since 2008, they have not gone back to the pre-crisis levels, and still remain rather volatile. An adjustment in minimum wages was announced only in the second half of 2010.

Sixth, while the stimulus package mentions additional allocation for the 100-day employment creation programme, the actual amount (both the total and the addition) remains rather small in relation to the budget and the country’s GDP. The additional allocation for social safety nets as a whole (of which the employment programme is a part) in the first package of Tk. 34.2 billion was Tk. 3.7 billion or about 10 percent of the additional allocation.

Finally, a general observation may be made about policy responses to crises caused by external shocks like the Great Recession of 2008-09. Since such shocks are common in market oriented economies, it would be important to create preparedness for responding to them and to adopt a longer term approach rather than reactive measures. Timeliness and speed of response is especially important from the point of view of effectiveness of whatever measures are undertaken.

²⁶ It may be mentioned in this connection that a component on infrastructure is quite common in policy interventions to respond to economic downturns and has been included in stimulus packages during the global economic crisis in countries ranging from China to USA.

3.5. Is Macroeconomic Stability Sufficient for Good Labour Market Performance?

It may be recalled that the evidence and analysis presented in Section 2 points to a reasonably good macroeconomic performance of the economy of Bangladesh. While there has been a gradual acceleration in GDP growth over time (except for the decline in recent years), both budget deficit and inflation has been under control. The situation regarding foreign exchange reserve and external debt has also improved over time. However, despite a healthy performance on the macroeconomic front, the performance with regard to social dimensions (e.g., employment and labour market) has not been particularly laudable. In fact, the situation on that front appears to have worsened.²⁷ It would thus appear that while macroeconomic strength and stability is essential from the point of view of achieving sustained growth and facing challenges posed by economic crisis, it is not a sufficient condition. It is important to devote particular attention to the social dimensions in terms of the impact of growth on poverty, income distribution and labour market and to what happens in these areas when growth falters. In that context, the treatment of social aspects in the policy package adopted in response to the global economic crisis appears to be rather inadequate.²⁸

Preparedness of the economy to address the adverse social effects of an economic crisis is also important. In that regard, it is important to have in place (before a crisis) a set of measures that can become active quickly when a crisis strikes. While sections 5 and 6 deal with this issue, Section 4 will provide background to that analysis by describing what exists.

²⁷ And yet, the Executive Board Assessment of IMF 2009 Article IV Consultation with Bangladesh “commended the authorities for the strong performance of Bangladesh’s economy, despite the global recession”. The assessment went on and “noted that fiscal conservatism of the government has paid large dividends”. (See IMF, 2010b). This shows how narrowly focused such assessments and their conclusions could be. It will be seen in Section 4 that fiscal commitments of the successive governments towards employment and other safety net programmes in relation to the size of the economy declined over time and recovered only after 2007 in the wake of the global food and economic crises.

²⁸ It may be mentioned in this regard that employment and other social dimensions of development are important even in periods of normal economic growth because high rate of economic growth does not necessarily lead to a high rate of employment growth. Longer and medium term development strategy in a country like Bangladesh should aim at achieving a growth path that is conducive to high growth of productive employment. Since the country is reverting back to medium-term development plan as an instrument for articulating development strategies, it may be expected that a job-creating growth path would be charted in the Sixth Five Year Plan which is currently (at the time of finalizing this paper) being formulated. For preliminary ideas about such a growth path, one may see Islam (2009, 2010b).

4. IDENTIFYING CORE ELEMENTS OF A DESIRABLE PACKAGE OF EMPLOYMENT AND LABOUR MARKET POLICIES FOR RESPONDING TO POSSIBLE EXTERNAL SHOCKS IN FUTURE

4.1. A Framework for Employment and Labour Market Policies in the Context of a Basic Social Floor

It is clear from the evidence and analysis presented in Sections 2 and 3 above that while the macroeconomic environment in Bangladesh has been relatively stable, the economy has been affected by the external shock arising from the global economic crisis. Moreover, macroeconomic stability has not enabled the economy to attain the kind of structural transformation in the labour market that is desirable in an economy like that of Bangladesh. Against that background, a relatively modest stimulus package was implemented with the objective of providing support to the sectors most severely affected by the crisis. A closer look at the details of the stimulus package shows that its focus has been more on sustaining growth rather than on social dimensions.

The composition of a policy package for responding to an external shock would naturally depend on goals adopted for achievement by such a package. The issue could, in turn, be approached from different perspectives. One could be to take the view that if economic activities can be propped up through appropriate measures that would automatically lead to recovery in the labour market and thus take care of the social dimensions that one might be concerned about. However, lessons from previous economic crises in various parts of the world--both developed and developing--demonstrate clearly that economic downturns (especially if they are severe) leave deep scars on the lives of the poor and vulnerable people which take time to heal. While the impact of a downturn gets transmitted to livelihoods and living conditions fairly quickly, the beneficial effects of recoveries trickle down much more slowly. For example, it has been found that labour markets respond to economic recovery with a lag at best.²⁹ Likewise, some from the vulnerable sections of an economy may easily slip below poverty during a crisis, but may find it difficult to reverse their situation.³⁰ And for those who are already poor may find it harder to improve their situation.³¹ Hence, in order to prevent deterioration in the living conditions of the weaker and vulnerable sections of the society, it is essential to undertake measures directly aimed at that goal.

Measures undertaken by various countries in response to the global economic crisis of 2008-09 indicate that some countries (especially some in the developed world) did

²⁹ For example, in the wake of the Asian economic crisis of 1997-98, economic recovery was achieved fairly quickly, but labour markets responded with a lag that varied from country to country. In Indonesia, for example, the labour market did not return to its pre-crisis situation for several years after the recovery started. There is a good literature on this subject. See, for example, Islam, R. (2010), Reinhart and Rogoff (2010).

³⁰ The experience of the Asian economic crisis of 1997-98 provides a good example in this regard also. In the countries that were severely affected (e.g., Indonesia, Thailand), there was a reversal in the trend of decline in the incidence of poverty. And in some cases, it took time to put the economy back on the path of poverty reduction.

³¹ In Bangladesh, the rate of poverty reduction slowed down after 2005. And it may be recalled that in 2007-08 the country was severely hit by the food crisis and was again hit by the global economic crisis during 2008-09.

incorporate specific measures in their stimulus packages in order to address the social dimensions of the impact of the crisis. The measures included instruments to strengthen the “automatic stabilizers” that already existed in those economies (e.g. unemployment benefits) as well as to save jobs. Extension of the duration of unemployment benefits in the USA and the introduction of subsidy for employers who would adopt the practice of “short-time work” as opposed to retrenchment in Germany are some examples of such instruments. The stimulus packages also incorporated measures--investment in infrastructure in China and USA, for example--that would have a direct impact on employment. However, it appears that during the recent crisis, it is the developed countries where automatic stabilizers featured more prominently in their policy responses compared to that of the developing countries³². Of course, some developing countries did introduce measures to support the labour market. Brazil, for example, raised the minimum wages of workers and extended the duration of unemployment benefits. China, Indonesia, and Malaysia introduced re-training programmes for laid off workers. The Philippines increased the allocation under conditional cash transfers. India already had (before the crisis) a nationwide employment guarantee programme. Although the allocation for the programme was not increased during the crisis, its existence created the possibility of some cushion for the poor. And allocation for the programme has been increased in the budget for 2010-11.

The variation in the experience with policy responses to the crisis mentioned above raises several issues. First is the existence of automatic stabilizers in an economy which could perform an important role during an economic downturn. It is easier for an economy to support its poor and vulnerable when such instruments already exist. Depending on the availability of fiscal space, it may be possible to strengthen such instruments (for example, an extension of the coverage and/or duration of the unemployment benefits, where they exist). Likewise, the existence of programmes like employment guarantee or conditional cash transfers also makes it easier for policy makers to address the social concerns. The second issue is the existence of fiscal space and the ability to create such space when needed. While many developing countries don't have much space, constant reminders by international financial institutions to keep budget deficit within certain limits also create an environment that is not normally conducive to policy responses with flexibility. A related issue is the existences of institutional capacity as well as the degree of awareness with respect to responses that are required to address the social dimensions of the impact of economic crisis more directly than through economic measures alone.

If a country like Bangladesh were to incorporate social dimensions more explicitly in responses to an economic downturn, what goals could be aimed at? In addressing this question, a useful starting off point could be the positions articulated at the international level. For example, it may be recalled that Article 22 of the Universal Declaration of Human Rights (1948) states: “Everyone, as a member of society, has the right to social security”. Article 25 of the above Declaration formulates this right in a more precise manner as “... the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control”. The Social Protection Floor (SPF) Initiative of the UN defines the term as “global and coherent social policy concept that promotes nationally defined strategies that protect a

³² Examples of labour market initiatives in response to the crisis can be found in ILO (2009), Table 4, p.24.

minimum level of access to essential services and income security for all in the present economic and financial crisis and beyond” (ILO and WHO, 2009, p.1). According to this initiative, the main elements of SPF are:

- (i) Essential services: i.e., geographical and financial access to essential services (such as water, sanitation, adequate nutrition, health and education, housing, and other services including life and asset saving information); and
- (ii) Essential social transfers: i.e., social transfers, in cash and in kind, paid to the poor and vulnerable to provide a minimum income and health security.” (ILO and WHO, 2009, p.2)

The ILO defines what it calls “The Basic Social Security Floor” (BSSF) as “a basic and modest set of social security guarantees--implemented through social transfers in cash and in kind--for all citizens ...”. (ILO, 2008, p.2). This set of guarantees includes (i) access to basic/essential health care benefits, (ii) income security for children at least at the poverty level through various family/child benefits, (iii) targeted income support to the poor and the unemployed in the active age group, and (iv) income security for the old and the disabled-- at least at the poverty level--through pensions for old age, disability and survivors. The BSSF thus consists essentially of a guaranteed set of basic social transfers in cash or in kind to all. It is formulated as a set of guarantees rather than benefits. This leaves the option open to individual countries to implement them through means tested conditional or unconditional transfers. While conceptually this can be part of a country’s social security architecture, in reality they may take the form of social assistance rather than social security benefits. As for financing, it is assumed that the SPF would be financed through general taxation (whereas defined benefits in social security schemes are the result of rights acquired on the basis of contributions).

It is up to the government and policy makers of a country to set the goals to be attained through a policy package. However, in the context of the poor and the vulnerable in the face of an economic crisis like the recent one, it may be reasonable to assume that a country would want to create a basic social floor below which the poor would not be allowed to fall. Irrespective of whether a country accepts all the elements of the BSSF proposed by the ILO or the SPF defined under the UN initiative, a few basic elements would appear to be critical. As incomes and living conditions depend crucially on employment and labour market situations, it may be worthwhile to approach the issue from that perspective. The following elements would be important in that respect.

First, it would be important to institute automatic stabilizers in the economy in the form of unemployment benefits which could come into play in the event of a severe economic downturn resulting in substantial increases in unemployment. This would not only support the livelihoods of the poor or near-poor workers and their families, it would help maintain the aggregate demand in the economy and thus prevent further decline in growth. One way of doing this would be to introduce special employment programmes, which, in turn, are often done through investment in infra structure _ popularly known as public works programmes.

Second, it would be important to minimize the adverse effects on the poor by introducing/ strengthening severance pay and incentives for preserving jobs.

Third, attempt could be made to preserve and enhance investment in human development (especially in education and health) through various measures, e.g., conditional and universal cash transfers.

Fourth, investment in infrastructure can be used as an effective means of creating the necessary environment for investment in other sectors of an economy as well as of generating employment. Developing countries generally suffer from inadequacy of infrastructure; and even in normal circumstances, investment in infrastructure should be a priority for governments who intend to be pro-active in development policies. When labour markets suffer from a shortage of demand and become slack during an economic downturn, one instrument that can contribute simultaneously to encourage investment and employment is investment in infrastructure. This has become well-known from the time of the Great Depression and has been used again (including in developed countries) during the global economic crisis of 2008-09. Indeed, this can be used in the context of employment creation programmes mentioned above.

Table 5 presents a schematic listing of instruments corresponding to various goals that may be pursued by a society.³³

TABLE 5
Goals and Instruments for Addressing Employment and Labour Market Impact of
Economic Downturns

Goals to be pursued	Appropriate instruments
Minimize the adverse effect on employment	(i) Automatic stabilizer in the form of unemployment benefits (if appropriate, through schemes for guaranteeing employment) (ii) incentives for job preservation (iii) Investment and adoption of labour based approaches in infrastructure
Mitigate the adverse effects of economic downturn on retrenched workers	Introduction of severance pay
Enhance employability and redeployment of retrenched workers	Introduction of active labour market policies
Protect investment in human capital	Conditional and unconditional cash transfers with particular focus on education and skill training

4.2 Poverty and Basic Social Floor in Bangladesh: An Overview of Existing Situation

Data from the Household Income and Expenditure Surveys (HIES) conducted periodically indicate that the incidence of absolute poverty in Bangladesh has declined from nearly 59 percent of the population in 1991-92 to 40 percent in 2005. In fact, the rate of poverty reduction appears to have seen some acceleration during 2000-2005 when

³³ This approach and the listing (below) of goals and the corresponding instruments follow the framework outlined in Islam, Iyanatul (2010).

poverty declined from nearly 50 percent to 40 percent. However, it appears that the rate of poverty reduction slowed down after 2006, first, due to the food price crisis and then due to the reduction in economic growth and increase in unemployment and underemployment following the global economic crisis. Bangladesh was severely affected by the food crisis that resulted in sharp increases in the prices of food grains in the second half of 2007 and the first half of 2008. Wages and incomes of the poor could not keep pace with the increases in the prices of food which is a major item of expenditure at that level of income. The result was a decline in the real income of the poor.³⁴ As there was no household income and expenditure survey during 2007-09, it is difficult to provide direct evidence to demonstrate the trend in the incidence of poverty after 2005. However, indirect evidence based on estimates and simulations point to at least a slowdown in the rate of decline of the incidence of poverty (World Bank, 2008; Raihan, et al. 2008).

An important issue with regard to the incidence of absolute poverty is whether Bangladesh is likely to be able to achieve the Millennium Development Goal of reducing poverty by half by 2015 (compared to the base year 1990). In order to address this question, it would be necessary to look at two things: (i) the rate of poverty reduction that is required between now (i.e., 2010 and 2015), (ii) the GDP growth required to attain such a rate of poverty reduction. If we assume that the incidence of poverty in 1990 was 59 percent, the MDG of halving poverty would require the incidence to be 29.5 percent in 2015. Since the incidence was 40 percent in 2005, the target could be achieved if the annual rate of poverty reduction during 2005-15 were 3 percent per annum. The rate of GDP growth required to achieve that rate of poverty reduction would depend on the elasticity of poverty reduction with respect to GDP growth which was 1.07 during 2000-05. If that is used for projection, the required annual growth of per capita GDP works out to be 2.8 percent. However, in Bangladesh, the elasticity of poverty reduction with respect to GDP growth on a long term basis has been found to be much lower than that observed during 2000-05. During the decade of the 1990s, the figure was 0.62. If that rate prevails, the required annual per capita GDP growth works out to be 4.84 percent. Assuming a population growth of 1.5 percent per annum, the total GDP growth required from the above estimates turns out to be 4.3 percent and 6.3 percent. In other words, in order to achieve the MDG of halving poverty by 2015, GDP growth of between 4.3 percent to 6.3 percent would be required. In this regard, it may be mentioned that the elasticity of poverty reduction observed during 2000-2005 was much higher than the long term average. Moreover, since the degree of inequality has been rising during the recent decade and the economy has been hit by two major external shocks in recent years, the rate of poverty reduction is most likely to have been much lower than observed during 2000-05.³⁵ Moreover (as mentioned in Section 2 already), the rate of GDP growth has been declining since 2006 and has been below 6 percent for two consecutive years (2008 and 2009). Hence GDP growth and/or the rate of poverty reduction during the next five years (i.e., during 2010-15) in order to achieve the MDG of halving poverty by 2015 would have to be substantially higher than 6 percent. And the likelihood of the country attaining this goal already looks uncertain. Special attention to the social dimensions of

³⁴ See, for example, Islam and Buckley (2009) and Rahman, et al. (2008).

³⁵ See Islam (2009) for more details on trends in income inequality in Bangladesh.

external shocks resulting from economic crises (or for that matter, from any other types of crisis) becomes particularly important from that perspective.

An array of programmes exists in Bangladesh that provides social protection and social safety nets, especially to the poor. Apart from 1.2 million government employees who are eligible for pensions after they retire at the age of 57 years, the rest are basically programmes targeted to the poor and do not carry any defined benefits. The latter can be grouped into several categories: (i) employment generation programmes; (ii) anti-poverty programmes aimed at providing food security; (iii) programmes in the areas of education and health; and (iv) special allowances for various groups like the old, disabled, etc.

Employment generation programmes³⁶

Programmes of employment generation that are being implemented by the Government of Bangladesh have evolved over time. Two major national programmes are the food for work programme (FFW) which started in 1976 and is supported by the World Food Programme and the rural maintenance programme (RMP) which also started in 1976 and is supported by CARE. Under the FFW programme, employment is created through labour intensive infrastructure projects that are implemented by the Local Government Engineering Department (LGED), the Ministry of Food and Disaster Management, and the Water Development Board (WDB). Wages are paid in kind (usually wheat)--the average wage rate is around 4.6 kg of wheat per day. Given the nature of schemes implemented under the programme, it is self targeting, and has been found to be generally well targeted. The programme has been renamed as Rural Infrastructure Development Programme in 2002.

The RMP, which began as a component of FFW program, targets destitute women in rural areas to work for wages on the maintenance of earthen road in rural areas. This programme also appears to be well targeted.³⁷ Over time, a number of components were added to the programme in order to prepare the women to earn their own living when the project period (four years) was over. The aim was to create new entrepreneurs with necessary skills and capital. They were imparted training in “life management” skills, and part of their money earnings were put aside as compulsory savings in a bank deposit to form a capital fund which could be used for generating self-employment after they left the project.

Data presented in Table 6 show that allocations for both FFW and Test Relief (which is the window for allocation of food grains for the rural maintenance programme) increased substantially in 2008-09. There was more than threefold increase in both food allocation and the amount of employment generated under FFW in 2008-09 compared to 2007-08.

³⁶ Here, we deal only with wage employment programmes. In Bangladesh, there are a large number of micro credit programmes (run by the government as well as NGOs) to promote self-employment. But the present discussion does not deal with them.

³⁷ One study finds 89 percent of the participants to be divorced, deserted or widowed women who are household heads supporting on an average 3.5 dependents. See Kabeer (2009).

TABLE 6
Allocations for and Employment Generated Under the Food Based Employment Programmes

Year	Allocation under FFW (tons)	Employment generated (million man-days)	Allocation under Test Relief (tons)	Employment generated (million man-days)
2006-07	73,000	12.18	150,000	25.00
2007-08	107,000	17.83	150,000	25.00
2008-09	375,000	62.50	370,000	61.00
2009-10	375,000	62.50	400,000	66.67

Source: Ministry of Food and Disaster Management, Government of Bangladesh

In response to the adverse effect of the food price crisis on the poor, a programme was initiated in 2008 with the objective of providing 100 days of employment per household. The strategy was to create employment during lean seasons of the crop production cycle through labour intensive infrastructure projects. It was a cash based programme, and the wage rate was fixed at Tk. 100 per day. The first cycle was implemented during September to November 2008, while the second cycle was to be implemented during April-May 2009. The programme aimed at covering 2 million households, thus creating 200 million man-days of employment.³⁸ In reality, 91.5 million man-days of employment were generated during 2008-09. In 2009, the programme was restructured into what was called “Programme of Employment Generation for the Hardcore Poor”. The allocation for 2009-10 was Tk. 11.76 billion and the target was to create 117.6 million-days of employment. The budget for 2010-11 has made an allocation of Tk. 10 billion, and the daily wage rate has been raised to Tk. 120.³⁹

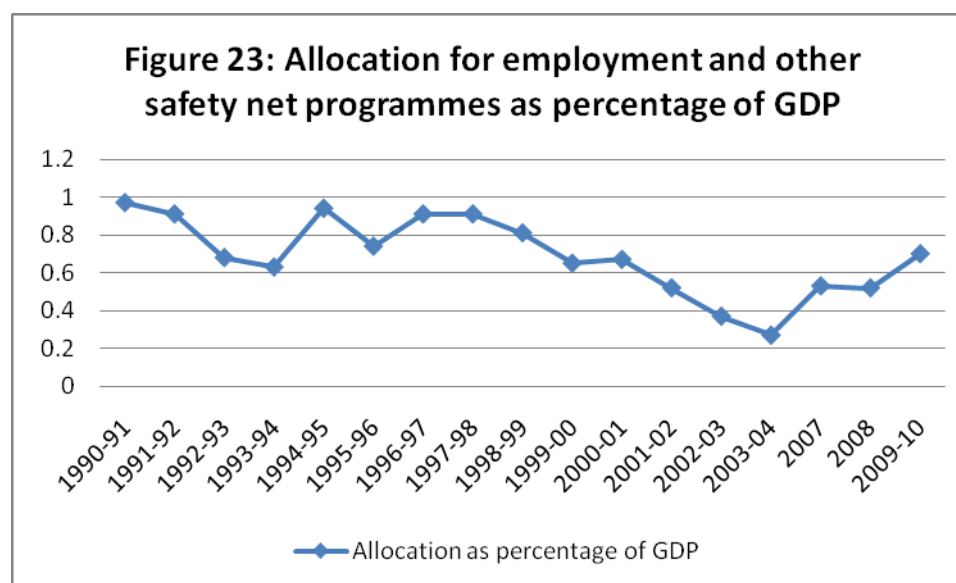
In order to put the size of the employment generation programme in perspective, it may be useful to recall that the Household Income and Expenditure Survey of 2005 estimated 25 percent of the population as extremely poor (i.e., below the lower poverty line) in 2005. That implies that approximately 40 million people (or eight million households) may have been extremely poor in 2009. Thus, the intended coverage of the 100-day employment programme appears to be equivalent to 25 percent of the extremely poor. In reality, the coverage appears to have been less than that.

As for the cost of employment and other food based programmes in relation to the overall economy, our estimates indicate that it has never exceeded 1 percent of GDP (was 0.97 per cent at its peak in 1990-91). In fact, the allocations under the programmes in relation to GDP experienced a secular decline after 1997-98 and reached 0.27 percent of GDP in 2003-04 (Figure 4.1). However, there has been an increase after 2003-04, and the allocation reached 0.53 percent 2007. After remaining at that level during 2008, the allocation increased to 0.70 percent of GDP in 2008-09. The increase in the allocation for employment and other safety net programmes came in the wake of hardships created for the poor by the sharp increases in the prices of food grains during 2007-08 and other natural disasters that country faced during that period. It may, however, be noted that the allocation in relation to GDP remains way below the levels witnessed during 1990-92 or

³⁸ See NFPCSP-BRAC (2009) for an evaluation of the first phase of the programme.

³⁹ Figures presented here are from the Ministry of Food and Disaster Management, Government of Bangladesh and from the budget statement of the Ministry of Finance.

1996-98 (over 0.9).⁴⁰ The allocation for the 100-day employment programme in 2008-09 (Tk. 11,760 million) was 0.19 per cent of GDP (Tk.6, 149,430 million).⁴¹



Note: The programmes included in this figure are the 100-day employment programme and its successor, the food for works programme, GR, TR, VGD and VGF.

Sources: Data up to 2003-04 are from Ministry of Finance, Government of Bangladesh: *Bangladesh Economic Review* (various years). After 2003-04, data on financial allocations are not available from published sources. The allocation figures for 2007 and 2008 have been taken from Mousseau (2010) who quotes Finance Ministry sources. The GDP figures for the respective years were used to work out the ratios. Allocation data for 2009-10 are from the 2010-11 budget document of the Ministry of Finance.

Programmes aimed at providing food security

Programmes in this category include both unconditional and conditional food transfer programmes where food is distributed directly to beneficiaries. The former include gratuitous relief (GR), vulnerable group feeding (VGF) programme for destitute women while the latter include vulnerable group development (VGD) fund under which food is distributed to destitute rural women on condition of participation in skill development programmes. It may be noted that the GR is a relatively small programme. Allocation under VGF was increased substantially in 2008-09 in response to the adverse effect of the global economic crisis (Table 7). The number of women covered by this programme was raised substantially in 2008-09 (to 7.29 million) compared to 2007-08 (4.48 million).

⁴⁰ As noted earlier (see footnote 23), the IMF noted with appreciation the “fiscal conservatism” of the government and mentioned that it “paid large dividends”. Given the limited (and sometimes declining) allocation of resources to safety net programmes, one can see the implications of so-called “fiscal conservatism”. But one would wonder what the “large dividends” are.

⁴¹ It may be mentioned in this context that when India’s National Rural Employment Guarantee Programme was launched (2006), its cost in relation to the country’s GDP was projected to be about one per cent of GDP in 2008-09. See Drèze (2004).

TABLE 7
Food Allocation for and Number of Persons Covered by VGD and VGF Programmes

Year	Allocation for VGF (tons)	Number of beneficiaries under VGF (million)	Allocation for VGD (tons)	Number of beneficiaries under VGD (million)
2006-07	250,000	3.57	200,000	0.60
2007-08	314,000	4.48	200,000	0.60
2008-09	510,000	7.29	260,000	0.75
2009-10	550,000	7.86	262,000	0.75

Source: Ministry of Food and Disaster Management, Government of Bangladesh.

Education and health programmes

In the field of education, there are two major programmes that are intended to provide support to the poor. One is what started as the Food for Education Programme in 1993 and was subsequently replaced by the Cash for Education Programme in 2002. It provides monthly cash transfers to poor households on the condition that children are enrolled in school and maintain a minimum level of attendance. This has become a major component of the education budget of the government. It is the largest conditional cash transfer programme in the country. And studies have shown that the programme has attained a degree of success in terms of attendance of children from beneficiary households, rise in enrolment and rise in female enrolment (Kabeer, 2009). The second programme in the field of education is the female secondary stipend programme which aims to encourage girls in rural areas to attend secondary schools. The objectives of the programme are to increase and retain female students in grades six to ten, and to reduce early marriage among girls. The programme has operated since 1993 and has led to significant increases in the enrolment of girls at the secondary level (Kabeer, 2009).

Notable health sector programmes aimed at providing support to the poor include the maternal health voucher scheme (MHVS) and revitalization of community health centres. The goal of the MHVS is to reduce maternal mortality among the poor and vulnerable pregnant women by increasing awareness and demand for maternal health services and augmenting institutional delivery. In addition to the delivery of services, the MHVS includes small cash payments to the beneficiaries (Khuda, 2010).

The community clinics (CC) programme was initiated in 1998 under the Health and Population Sector Programme of 1998-2003 with the objective of providing essential service package of health, family planning and nutritional services to rural people from a single stop demand based centre for every 6,000 people. The programme was abandoned in 2001. There is a plan to revitalize it, and allocation has been made within the budget for 2010-11.

Allowances for specific groups

Old age allowance targeted at the poor people aged over 65 years was introduced in the budget of 1997-98. This is a tax financed social assistance scheme that targets the poorest 20 people in each “ward” (which is the lowest level local government institution). It is a means tested programme in which the recipients are selected by the community and is

administered by the Ministry of Social Welfare. The amount of allowance per month has gone up gradually from Tk. 100 per person per month during 1998-2002 to Tk. 300 in 2009-10. The number of beneficiaries increased from 400,000 in 1997-98 to 2.25 million in 2009-10. The budget for 2010-11 proposed the number to be raised to 2.47 million. The total cost is about 0.03 per cent of GDP.

While a full-fledged assessment of the programme mentioned above⁴² (or for that matter, of other programmes of this type) is beyond the scope of the present study, it may be useful to put the size of the programme in a proper perspective. First, it may be recalled that the number of the poor in Bangladesh probably exceeds 60 million. So, the number covered by the programme on old age assistance appears to cover only around 4 per cent of the poor. Second, the amount of the allowance is less than a fourth of the poverty line income as of 2005⁴³. And given the high rate of inflation in subsequent years, one would wonder how much the programme could contribute to reducing poverty.

Apart from old age allowance, there are a number of other programmes which are even smaller in size and allocation. They include the allowance for the poor disabled, for poor lactating mothers, fund for women who suffered acid burn, and fund for self-employment of physically disabled women, allowance for widowed, deserted and destitute women, honorarium for insolvent freedom fighters, and training and self-employment programmes for insolvent freedom fighters and their dependents. However, the total allocation is rather small in relation to the total budget or GDP.

It is important to note here that despite the existence of a relatively large number of social safety-net programmes in Bangladesh, the country lacks a comprehensive social protection strategy under which the above programmes could be integrated to derive required complementarities and synergies. The existing social safety-net programmes are largely fragmented in nature and administered by several government ministries/departments without effective coordination which leads to inefficient use of resources and sub-optimal generation of benefits. A comprehensive social protection strategy is, therefore, an urgent need under which all the social protection and social safety-net programmes can be brought together and administered effectively.

Concluding remarks on the current status of employment and labour market programmes in the context of a basic social floor in Bangladesh

The overview of the situation regarding the basic social floor in Bangladesh presented in this section brings out a number of points.

First, there are a number of programmes that provide a good foundation for creating a basic social floor for the poor in Bangladesh. They can be used to create a strong floor for the poor so that they can be protected from possible adverse effects of external shocks (like the global economic crisis of 2008-09) to which they are vulnerable. Indeed, it has been seen that these programmes have been used to respond to various crises including the ones caused by the

⁴² See Paul-Majumdar and Begum (2008) for an assessment of this programme.

⁴³ The monthly allowance per person was Tk. 180 in 2005-06 while the poverty line income ranged between Tk. 743 to Tk. 1,171 in different regions of the country.

sharp rise in food prices during 2007-08 and the global economic crisis of 2008-09.

Second, there are a number of gaps in the social safety net programmes of Bangladesh. For example, although there are employment generation programmes, there is no legal basis for providing employment and unemployment benefits on a guaranteed basis. Another important gap is the absence of severance pay and of programmes of retraining and redeployment for retrenched workers. A more comprehensive package of programmes can be formulated by filling these gaps so that the country can have an effective social floor for the poor. The critical element in such a package would be to upgrade the employment programme into a truly nationwide programme providing guaranteed employment and unemployment benefits so that it can serve the purpose of an automatic stabilizer during periods of sharp economic downturns. The employment programme should be integrated more effectively with the country's infrastructure development programme so that employment generation can be combined with strengthening of infrastructure that can act as a catalyst for future development. The other elements that should be considered include possible means of preventing job losses due to economic downturns and active labour market policies including retraining and redeployment for retrenched workers.

Third, the amount allocated for employment and other social safety net programmes needs to be revisited. It is quite clear that the allocation in relation to the size of the economy (GDP) is quite low and has been declining over time. Although the declining trend has been arrested in recent years (especially since 2007), the previous peaks (seen during the 1990s) have not yet been reached. It may, of course, be argued that with a decline in the incidence of absolute poverty, the need for social safety nets for the poor may also have declined. Two issues may be raised here. First, even though poverty has declined, there may be a large section who are not poor and yet vulnerable to shocks and risk slipping below poverty line when hit by the adverse effects of external shocks like the recent economic crisis. And a social floor could be designed to prevent such a reversal in poverty. Second, although the need for support to the poor through safety nets may have gone down, a market based economy facing periodic economic fluctuations and the challenges of structural adjustments to changes in the market would need active labour market policies to respond to such challenges. This element, therefore, needs to be included in the policy package for responding to crisis and for sustained economic growth.

Of course, an employment programme with universal coverage and built in provision for unemployment benefit may cost more than the current programmes. The cost needs to be worked out and the feasibility of funding such a programme examined. In that context, it would be essential to take a careful look at the fiscal space and institutional capacity that exists in the country. Ways and means should be explored to increase the fiscal space, if necessary, and improve the institutional capacity for implementing a package of programmes that would constitute a basic social floor for the country. This will be done in the subsequent sections of the present report.

5. RESPONDING TO ECONOMIC DOWNTURNS: FISCAL IMPLICATIONS OF PROMOTING EMPLOYMENT AND LABOUR MARKET POLICIES WITHIN THE CONTEXT OF A SOCIAL FLOOR

The impact of economic downturns usually falls disproportionately on the poor, not only in terms of economic distress resulting from job losses and deterioration of underemployment and poverty situations but also through worsening of key social development indicators, such as school attendance of children and nutritional status of the household members, especially children and women.⁴⁴ It is obvious that the impact of any economic downturn or crisis on the poor would be more severe in the absence of a basic social floor that contains automatic stabilizers for cushioning the economic shocks and helping to maintain basic consumption. At the macroeconomic level, such a basic social floor can also serve as a countercyclical policy response through providing a boost to aggregate demand, helping to maintain labor productivity, providing cushion in building human capital, and sustaining economic growth.⁴⁵

In contrast to the fiscal retrenchment policies (that led to cuts in social spending) that emerged as natural outcomes of economic crisis of earlier decades, the role of employment and labour market policies as ‘automatic social and economic stabilizers’ within the context of social protection has been widely acknowledged in the wake of the recent global economic crisis.⁴⁶ It has been mentioned already in section 4 above that the United Nations has advocated the need for creating social protection coverage within the purview of a ‘Social Protection Floor’ to cope with the global downturn.⁴⁷ The ILO Global Jobs Pact of 2009 also urges that countries develop adequate social protection for all drawing on a basic social protection floor.

For the present study, we start with a basic minimum policy package consistent with reality and relevant to addressing potential adverse impact of an economic downturn in Bangladesh. From such a perspective, the package considered here is somewhat different and narrower than the ones discussed in recent proposals by several international organizations including the ILO (described briefly in section 4). In designing the package, a key consideration has been to combine priority social transfers in an articulated manner to protect the poor and vulnerable from becoming trapped in debilitating poverty by providing security to a minimum level of income and enhancing the capacity to respond to labor market opportunities. In the longer term, these interventions will also serve as important development tools.

Keeping the above considerations in view, and using the framework of goals and instruments mentioned in section 4, a package consisting of the following four *employment and labour market* components is being proposed:

⁴⁴ See Ravallion (2009).

⁴⁵ Experiences across countries show that countries having social protection schemes within the framework of effective social inclusion strategies have better responded to economic fallout than those with no or inadequate social protection coverage.

⁴⁶ For example, most G20 countries responded to the recent economic crisis by ring-fencing and scaling up social protection measures through stimulus packages.

⁴⁷ Section 4 above contains a brief introduction to the concept of basic social floor as used by the UN and that basic social security floor as used by the ILO.

- (a) guaranteed employment program with a component of unemployment benefit;
- (b) scheme for subsidizing job preservation through work sharing;
- (c) scheme for introducing active labor market policies including retraining and redeployment; and
- (d) provision for an increase in public investment in infrastructure especially focusing on labor based approaches and linked with the proposed guaranteed employment program.

For serious consideration of the above policy package in the context of Bangladesh, an important pre-requisite is to work out its fiscal and budgetary implications. Such implications would no doubt be sensitive to the underlying assumptions with respect to operationalizing the components especially in terms of coverage and unit costs. The present section provides an estimate of the budgetary costs of implementing the package using some plausible assumptions. These estimates may be refined further based on new information and more realistic assumptions, if needed.

5.1. Guaranteed Employment Program (GEP)

This component involves guaranteed wage employment for 100 days in every financial year to one adult member of all poor households willing to do unskilled manual work at a given minimum wage. This will also have a component of unemployment benefit to persons eligible and willing to avail the employment opportunity but to whom the implementation authorities would fail to provide employment within a stipulated time. The primary aim of the component is to enhance the purchasing power of the poor households by providing mostly semi-skilled or unskilled work to people living below the poverty line. The target group would be one adult member of any poor household willing to do unskilled manual work mostly under public works programs, and would therefore mainly involve the poorer section of the population, especially the landless and marginal farmers and the poor nonfarm wage laborers.

The budgetary parameters of the Program are given in Annex 1. It can be seen that the cost of the GEP having coverage of all poor households will be Tk. 132 billion per year at 2009-10 prices which comes to around 1.9 percent of the country's GDP.⁴⁸ The estimates show that the Program would generate 1.2 billion person days of employment per year implying that the number of persons employed per day would be 3.3 million on average, which is equivalent to 5.7 percent of the total population below the poverty line. Thus, the participation ratio, defined as the ratio of average employment per day under the Program and the total number of the poor, would be high compared with similar programs implemented elsewhere in developing countries.⁴⁹ It is obvious that if we use a

⁴⁸ As mentioned already, when India launched its employment guarantee programme, the projected cost was one percent of GDP. It will be shown below that when the allocation to existing employment programmes in Bangladesh is taken into account, the additional expenditure on an employment guarantee programme is likely to be considerably less than 1.9 percent of GDP as mentioned here.

⁴⁹ The experience of the well-known Maharashtra Employment Guarantee Scheme (MEGS) of India shows that its participation ratio reached a peak of 3 percent in the late 1980s at a time of severe drought across Maharashtra despite the fact that MEGS offers open-ended employment guarantee throughout the year and poverty levels in the rural areas of the state was quite high at that time relative to other states of India.

lower participation ratio in the proposed Program, the cost will correspondingly be lower. For example, if the participation ratio is halved to 2.9 percent, the total cost will come down to Tk. 67 billion. Thus it is possible to lower the cost of the Program by creating hurdles in participation of the poor people in the Program and reducing the participation ratio.

The cost estimates assume a labor-material ratio of 10:1 which may appear to be high.⁵⁰ It is indeed possible to organize large scale public employment programs with lower ratios especially in high labor-intensive work areas, such as environmental conservation and restoration covering watershed development, land regeneration, prevention of soil erosion and salinity intrusion, restoration of rivers and water bodies, and similar activities. If it is possible to reduce the labor-material ratio, the cost of the Program would also be lowered. If, for instance, the cost of the non-labor component can be reduced to Tk. 5 (instead of Tk. 10), then the total cost estimate would be reduced to Tk. 126 billion rather than Tk. 132 billion.

While the above estimate of cost is based on the assumption that the GEP would cover all poor households of the country in a holistic manner from the beginning and the cost of provision of guaranteed employment would be internalized within the GEP alone, some variants of cost estimate can be made under alternative assumptions. We provide here two alternative estimates. The first one provides the incremental cost of GEP if similar existing programs are dovetailed within the overall framework of the GEP. The second alternative provides for the implementation of the GEP in two phases. In the first phase, the program will cover upazilas with high poverty incidence while the remaining upazilas will be brought under the program within a specified period (e.g. two years) in order to make the program universal.

For the first alternative, we take some of the major programs of employment generation that the government has announced in the budget of FY2011. In the budget, the allocations for major programs which are primarily designed to create employment opportunities for the poor are: (i) food security programs (e.g. food for work, vulnerable group development, vulnerable group feeding, etc) Tk. 57.3 billion; (ii) employment generation for the hard core poor Tk. 10 billion; (iii) rural roads maintenance project Tk. 1.4 billion; (iv) protection of government assets and rural employment project Tk. 0.8 billion; (v) creating employment for *monga* affected people 0.7 billion; and (vi) raising living standards together with employment for the people living in *char* areas Tk. 35.5 billion. Thus the total allocation in the current fiscal year's budget for different programs which mostly target employment generation for the poor comes to Tk. 105.7 billion. This shows that the real incremental cost of GEP is Tk. 26.3 billion only.

The second option is to implement GEP in phases. For the purpose, one option could be to implement the GEP in those upazilas where the poverty headcount rate is higher than the national average. Using the headcount rates by upazilas from the poverty mapping

⁵⁰ In the 100-Day Employment Generation Program implemented during FY2009, the government spent a total of Tk. 9.2 billion of which Tk. 9.15 billion was wage cost and Tk. 47 million was administrative cost. Under the Program, average employed labor per day was 1.8 million and a total of 91.3 million person days of employment was generated. The number of registered labor was nearly 2 million. The Program was designed to cover only the unemployed extreme rural poor in 480 upazilas (covering 4,498 unions) for a total of 5 months (September-November) and (March-April).

exercise, it is seen that there are 63 upazilas (out of 481 upazilas of the country) where the poverty headcount ratio is higher than the national average (43.8 percent in rural areas in 2005).⁵¹ Using the same poverty rate of 2005 and updating for population increase in FY2009, the total number of poor households in these 63 upazilas comes to 1.65 million. Assuming that one person of each poor household will get employment for 100 days, a total of 165 million person days of employment would have to be generated which would cost Tk. 18.2 billion a year. In the case that the coverage of GEP in the first phase is further restricted to extreme poor upazilas with poverty headcount rate of above 50 percent, the number of such upazilas would be 39 with 1.04 million households living below the poverty line. In this case, 104 million person days of employment would be needed with a cost of Tk. 11.5 billion per year.

In addition, the possibility of ‘dovetailing’ of the GEP with existing programs in the area of labor intensive public works program and bringing an integrated approach within a comprehensive framework could substantially reduce the non-labor cost and enhance efficiency of the Program. Similarly, the use of more labor intensive techniques in various government programs in different contexts could ensure viability and enhance the effectiveness of the GEP. For instance, more labor intensive methods could be used in building roads and other infrastructures especially in rural areas for which the labor component may be financed under the GEP. It is possible to envisage various other options that could substantially reduce the cost of the proposed GEP.

In effect, a successful GEP in Bangladesh has to combine both public works program and public investments in infrastructure as complementary activities within its purview. This will facilitate the allocation of a larger share of resources on labor for creating more jobs. Moreover, in addition to infrastructure and construction, public works program can be usefully expanded to priority areas in the social sector, environmental services, and multi-sectoral community development. A well conceived GEP can easily become the main pillar to effectively contribute to the demand side of the labor market and act as a buffer during crises.

5.2. Subsidizing Job Preservation through Work Sharing

Subsidizing job preservation through work sharing and similar measures is another example of employment and labour market policies within the context of a social floor. Work sharing schemes can be used for a large number of workers as a response to a crisis to prevent a rise in unemployed labor.⁵² Moreover, through complementary targeted training for the affected workers, work sharing can also bring longer term benefits to both the workers and the enterprises. Such measures could be an important avenue for preserving jobs especially in the export oriented (e.g. RMGs) and consumer goods industries in Bangladesh. Work sharing programs implemented in response to economic downturn need to be targeted on enterprises experiencing temporary problems resulting

⁵¹ For details of estimation of poverty rates at upazila level, see, *Updating Poverty Maps of Bangladesh*, World Bank, Bangladesh Bureau of Statistics, and World Food Programme, Dhaka, 2009.

⁵² Work sharing is also known as ‘short time work’ and as ‘partial’ or ‘technical’ unemployment and refers to reduction of working time intended to spread a reduced volume of work over the same (or similar) number of workers in order to avoid layoffs. The reduced working time may take a variety of forms such as shorter working weeks, reduced daily hours, or temporary plant shutdown.

from the crisis to avoid the risk of subsidies going to non-viable enterprises, the subsidy should be paid for a limited time with the condition that working hours are reduced.

It is likely that job preservation through work sharing would be more relevant to formal large and some medium sized enterprises especially in the export sector. In this section, we provide some indication of the cost of subsidizing job preservation in four major export oriented industries (e.g. RMGs, leather products, frozen fish, and jute products) based on available data from different sources. It should, however, be emphasized that the numbers are indicative and a more plausible set of figures could be arrived at through collecting data at establishment levels.

For all four industries, most of the data are taken from the Survey of Manufacturing Industries (SMI) for the year 2005-06 and the apex bodies of manufacturers and exporters of these industries (e.g. BGMEA).⁵³ The estimates are based on employment of production laborers only with wage differentiation on the basis of skills. It is assumed that 5 percent of the production workers in the above export oriented would become redundant due to adverse impact of the crisis and the government would be required to subsidize the preservation of their jobs on the basis of work sharing.

Based on the above assumptions, the total number of workers for whom work sharing arrangements would be needed comes to about 150,000 in the RMG industries and around 10,000 in the remaining three industries. The yearly cost of subsidizing the employment in RMG industries would be about Tk. 9.5 billion per year while the same for the remaining three export oriented industries would be Tk. 0.35 billion (Tk. 216 million for jute industries, Tk. 7 million for frozen food industries, and Tk. 128 million for leather industries). The total cost of this component thus comes to about Tk. 9.85 billion per year.

5.3. Introducing Active Labor Market Policies

Active labor market (ALM) policies seek to influence the interaction between labor demand and supply. In the context of an economic downturn, such policies need to entail preventive interventions that maintain and promote labor demand. In order to be effective, ALM policies in Bangladesh are required to emphasize two broad aspects of the labor market: support labor demand, and increase employability.

In Bangladesh, ALM policies are yet to play a major role in protecting and promoting employment. Within the purview of ALM policies, two sets of policy measures need to be promoted especially in times of crisis: first, expanding public works and similar programs aimed at creating new jobs; and second, expand training, introduce apprenticeship and job search assistance programs, and provide entrepreneurship incentives for increasing employability and productive employment. Although ALM policies revolve around various forms of public works program at present, the need is to expand the scope of such policies to cover other groups including youth and women in addition to the poor and disadvantaged groups.

⁵³ It may be noted that the report of the Survey of Manufacturing Industries (SMI) for the year 2005-06 is the latest one conducted by the Bangladesh Bureau of Statistics (BBS) but the report is yet to be published by BBS. We have calculated the relevant figures from the unit level data accessed by courtesy of BBS.

In selecting the scope and diversity of the ALM policies, an important consideration would be to consider the financial and technical constraints that could hinder the adoption and implementation of specific policies. Often, it may be easier to begin with ALM policies that do not require complex institutional structures and social dialogue. In Bangladesh, one may identify a few policies that could be covered under the package, such as training, job search assistance, entrepreneurship assistance, public works program, and subsidized training for workers threatened with unemployment. Although ALM policies have been used as important weapon in the fight against unemployment (and poverty) in countries having formal job markets, the potential benefit in Bangladesh with a large informal job market could also be significant especially through assisting young people to find jobs and enhancing individual transitions in the labor market thereby avoiding social conflicts. Nevertheless, public works program as an integral component of ALM policies will probably be the most important tool for Bangladesh. It is estimated that an amount of Tk. 5 billion at 2009-10 prices would be required per year to implement a viable package of ALM policies designed specifically to the vulnerable labor likely to be threatened during a crisis. The package would cover several components including temporary public works program for affected labor in selected locations, provide support (e.g. financial incentives) to retrenched labor to enroll in marketable skill training programs, provide incentives to entrepreneurs and industry owners to introduce apprenticeship programs, and strengthen job search assistance programs. Many of these activities can be taken up within the purview of the public private partnership approach.

5.4. Increasing Public Investment in Infrastructure

Counter-cyclical public spending in infrastructure has long been used to create jobs in many countries including Bangladesh. In the proposed package, fiscal spending on infrastructure having specific employment component targeted to the disadvantaged groups will play a prominent role to sustain both jobs and aggregate demand. In Bangladesh, such public investment could cover construction and improvement of rural roads, highways, bridges, irrigation systems, water resources development, water supply and sanitation systems, natural resource conservation and climate change impact mitigation measures, and other infrastructures especially in the rural areas.

In the case of infrastructure investment, speedy implementation is critical to deriving the intended results of creating jobs and boosting aggregate demand. Along with experience in implementing such projects, the pace of job creation depends on several factors including institutional capacities, procurement procedures, nature of project undertaken (e.g. new large construction vis-à-vis small maintenance projects), and the scope for execution of small/medium scale works through a decentralized system. In order to reduce the time for initiating and implementing infrastructure projects, several options may be adopted, such as scaling up of ongoing public works schemes, breaking of funding into small components to facilitate the participation of local contractors/laborers, and choosing labor intensive methods allowing more use of local labor and local resources.

Another aspect of public infrastructure projects is to meet the challenge of appropriate targeting both in terms of intended beneficiaries and geographic regions to ensure that the programs reach the areas and the population groups most affected by the crisis. In this

context, prioritizing the execution of infrastructure projects in areas most affected by the crisis is an important means of targeting along with subcontracting small works to local contractors which allows for targeting of special groups such as women.

The costs of public investment in the infrastructure component of the package may vary widely depending on the types of infrastructure included in the package and other considerations. For the present exercise, we have taken into account transport infrastructure relevant to the rural areas only. This includes road transport although train services are also important in improving rural access in a cost effective manner. For cost estimation, we have followed the MDG needs assessment and costing methodology under the UN Millennium Project. This is an interventions based approach that uses a comprehensive range of interventions for estimating the resource needs.

For estimation purposes, the following interventions have been included: (i) construction and maintenance of village, union, upazila, and district roads; and (ii) construction and maintenance of bridges and culverts on village, union, upazila, and district roads.⁵⁴ It is estimated that the cost of public investment in rural infrastructure needs to be around Tk. 30 billion each year at 2009-10 prices, of which nearly 90 percent will be devoted to the construction and maintenance of feeder roads (village, union, and upazila roads) and associated bridges and culverts. In addition, another Tk. 10 billion at 2009-10 prices would be required each year for water management, small scale irrigation, and other community level interventions. Thus the total cost of this component will be around Tk. 40 billion at 2009-10 prices per year. The Local Government Engineering Department (LGED) plays the pioneering role in infrastructure development, especially in the rural areas.⁵⁵ The infrastructure development programme under LGED amounted to Tk. 35.8 billion in FY2010 which shows that the proposed scaling up of public investment in infrastructure is realistic keeping in view the compulsions especially in a year when counter-cyclical public spending will have to play a key role in sustaining economic activities and employment opportunities.

5.5. Total Fiscal Implications

The total budgetary and fiscal implications of the four components of the proposed package are summarized in Table 8. It can be seen that the total cost of the package comes to about Tk. 187 billion per year at 2009-10 prices. This is less than a fifth of the total expenditure of the government at present and 2.6 percent of GDP.

⁵⁴ In FY 07, nearly 140 million person days of employment were generated for the construction and maintenance of the rural road infrastructure in the country.

⁵⁵ Till June 2009, LGED has constructed a total of 64,691 km of dirt road, 66,599 km of paved road, and 953,295 meter of bridges/culverts. Besides, LGED developed 1,459 growth centres/rural shopping centres, undertook tree plantation over 21,188 km, constructed 1,938 Union Parishad complex buildings. Under its small scale water resource development programme, 377,308 hectare of cultivable land has been brought providing increased production of crops and fishes. An estimated 1.7 billion person days of employment had been created in the fiscal year till June 2009.

TABLE 8
Total Cost of Employment and Labour Market Policies within the
Context of a Social Floor

#	Component	Cost (Billion Tk. at 2009-10 prices)
1	Guaranteed Employment Programme	132.00
2	Subsidizing Job Preservation through Work Sharing	9.85
3	Introducing Active Labor Market Policies	5.00
4	Increasing Public Investment in Infrastructure	40.00
5	Total	186.85

Annex 1**Budgetary Implications of a Guaranteed Employment Program with a Component of Unemployment Benefit**

This annex provides the budgetary implications of a Guaranteed Employment Program with a component of Unemployment Benefit for the poor households.

The underlying policy agenda entails a guaranteed employment for 100 days on asset-creating public works program in a year for one person in every poor household in the country. The Program will also contain a component of unemployment benefit for the registered poor households to whom the authorities would fail to provide productive employment within a reasonable time.

1. Unit Costs

We assume that each person-day of employment costs Tk. 110 at 2009-10 prices. This consists of Tk. 100 for wages and Tk. 10 for non-labor costs including administrative costs. The wage cost of Rs.100 is somewhat lower than the average wage of day laborers in agriculture. The ratio of non-labor to total cost of 9 percent is in line with recent norms under different targeted employment programs. However, if the ratio of non-labor component can be reduced, the unit cost will correspondingly be lower.

2. Program Considerations

For estimating total costs of the proposed program, one important consideration is the number of person-days of employment that needs to be generated. In this context, one key aspect is the demand for such employment which depends on several factors, such as the wage level offered under the program, administrative /procedural requirements for getting the job, nature of work, distance of the work place, and similar other considerations. For the proposed program, the benchmark is that one person in every household below the poverty line will have the right to get 100 days of employment in public works over the year. In practice, not every poor household may avail the full 100 days of employment and some non-poor households may also enter the program.

It needs to be emphasized here that self-selection would be the basic principle of this Program and hence there will be no eligibility criteria (except for age and willingness to undertake manual work at the fixed wage rate of the Program) for participation in the Program. If the design is appropriately constructed, the conditions of employment under the Program may be set in such a manner that those who would express their willingness to be covered under the Program would mostly belong to the poor households.

While administrative and implementation procedures are not addressed here, a few characteristics of the proposed program may be highlighted: (i) the nature of the work will be in the form of public works which are productive and create social assets; (ii) the program may provide for creating links with relevant agencies for training and upgrading skills of the laborers; (iii) every registered person under the program shall be entitled to employment in accordance with the provision within a fixed period (e.g. 15 days) of registration; (iv) if no employment can be provided to the person within the stipulated time, he/she shall be eligible to receive a daily unemployment allowance at a rate fixed by the relevant authority but not less than one-third of the wage rate under the program; (v) appropriate facilities (e.g. safe drinking water and toilet facilities especially for women, first aid box, shade for children who may be brought to the worksite) will be made available at the worksites under the program; (vi) there shall be no discrimination on the basis of gender; (vii) for persons with disabilities, appropriate work will be provided in activities compatible with their abilities; and (viii) adequate arrangements will be made to ensure transparency and accountability at all levels in the implementation of the program.

3. Cost Estimate

The estimate of the cost of the Program assuming that it will be fully implemented is given in Table A-5.1. The estimated cost is Tk. 132 billion per year at 2009-10 prices which is equivalent to about 1.9 percent of the country's GDP in FY 2009-10. It is also important to note that the cost estimate provided here is likely to contain some upward bias due to lack of availability of recent data on the number of poor households.

The bias, however, is not likely to be too high to significantly change the order of magnitude of the estimates provided in the present analysis.

TABLE A-5.1
Estimated Cost of the Guaranteed Employment Program

Items	
Estimated total population 2009-10 , million	146.0
Proportion of population below the poverty line, percent ¹	40.0
Estimated total population below the poverty line, million ²	58.4
Total number of households below the poverty line, million ³	12.0
Total person-days of employment that need to be generated, million ⁴	1,200
Cost per day at 2009-10 prices (Tk.)	110
Total cost, billion Tk.	132
Total cost as share of GDP in 2009-10, percent	1.9

Note: ¹ Refers to the latest available data from the Household Income and Expenditure Survey (HIES) 2005. The calculation assumes that the head count ratio has not declined since 2005 which has probably introduced some upward bias in the cost estimates since the poverty rate is likely to have declined over time with economic growth. ² As indicated earlier, the number of the poor may contain some upward bias. ³ Using the average household size of 4.85 from HIES 2005. ⁴ Assuming employment of one person per household for 100 days on average.

While the above calculations assume that the Program will be implemented throughout the country in the same year, limitation in implementation capacity may call for a phased implementation over several years. For example, one can calculate the costs of a phased implementation of the Program over 2/3 years in which one can set the criteria of including the poorest regions (e.g. upazilas) first while other upazilas will be progressively covered based on declining order of poverty. Under the phased implementation scenario, total costs would progressively rise as the coverage is expanded.

However, the cost of the Program is likely to decrease over the years as the number of participating households declines as a consequence of income growth and poverty reduction. It is possible to adopt alternative criteria to expand the coverage and retain expenditure on employment guarantees, such as setting the expenses on the Program fixed as a share of GDP or setting higher goals e.g. removing the cap of 100 days of employment per year or relaxing the constraint of giving employment to only one person per poor household.

6. ENHANCING FISCAL SPACE TO SUPPORT EMPLOYMENT AND LABOUR MARKET POLICIES WITHIN THE CONTEXT OF A SOCIAL FLOOR

The analysis in Section 5 provides the estimated costs and the budgetary needs for implementing the proposed package of employment and labour market policies. In view of the limited fiscal space available to the government at present, it may appear that financing of the package may not be feasible within the present budgetary constraints. It is important therefore to look at options for enhancing the fiscal and policy space needed for implementing the package. The present section examines the feasibility of several alternatives: (i) increasing the efficiency of utilization of existing resources; (ii) raising additional domestic resources; (iii) ensuring more efficient utilization of remittances received from migrant workers; and (iv) promoting public private partnership especially in infrastructure and in undertaking active labor market policies.

6.1. Increasing Efficiency of Utilization of Existing Resources

Increasing the efficiency of utilization of existing resources and proper management of public expenditure can create significant impact on expanding the country's fiscal space. It is widely recognized that efficiency of utilization of existing resources is low at present which gives wide scope of raising productivity and efficiency. An analysis of the revenue expenditure pattern shows that resources devoted to the operations and maintenance expenditure is very low (1.4 percent of GDP) implying low level of effectiveness of capital spending by the government. Wages and salaries (including pensions, gratuities, and grants-in-aid) constitute around 5 percent of GDP which reflects an oversized bureaucracy especially at the lower end of the bureaucratic tier. Raising the efficiency and effectiveness of the government employees is no doubt an important area where improvements can go a long way in increasing the efficiency of existing resource utilization. Similarly, rationalizing the composition in the allocation of public spending over different activities can bring significant efficiency in overall resource utilization.⁵⁶

The development budget of the government has shown significant changes over the last decade. The emphasis has increased on rural development, infrastructure including communication, health, education, and training. Although the sectoral composition of allocation of the development budget favors national priorities, raising the quality of implementation of the projects can bring significant increase in efficiency in public resource utilization.

The low level of efficiency growth in the economy is also manifested in the slow growth of total factor productivity (TFP) in the economy. As against the notable growth of labor and capital inputs, TFP growth had a secondary role in contributing toward the country's growth process since independence. During the 1970s and 1980s, TFP growth was around 0.30 percent per year which declined substantially to only 0.06 percent during the early 1990s, a period characterized by crisis-driven economic reforms and rapid trade liberalization. Since 1997, the TFP growth has risen to an annual average of 0.36 percent

⁵⁶ It can be seen that the allocation of general public service in total revenue expenditure has declined from 21 percent in FY01 to 10 percent in FY07 while allocation in public order and safety has risen from 8 percent to nearly 10 percent. On the other hand, there has taken place a systematic improvement in the allocation of social security and welfare services (from 1 percent to more than 3 percent). The expenditure on defense affairs and services continue to remain as high as 16 percent of total revenue expenditure.

when the annual growth rate of quality-adjusted labor has been 3.7 percent and that of capital 6.8 percent.⁵⁷ The evidence from the study indicates a complementary role of public consumption in TFP growth reflecting a situation in which the level of public consumption is low and a large part of public expenditure is spent in providing essential public goods that enhance efficiency and facilitate productivity growth in the economy.

In the above context, it is important therefore to exploit multiple routes to increasing efficiency of utilization of existing resources including the infusion of new technology, emphasis on R&D, use of ICT, and accelerating the inflow of FDI. This would also require the development of human capital and technological skills to ensure the assimilation and adoption of appropriate technologies. The removal of the typical weakness of budgetary implementation stemming from the lack of coordination and adjustment of expenditures between the revenue and the development budgets can contribute significantly in raising the efficiency of public spending. Similarly, there exists considerable lack of transparency and accountability of budgetary management and the delivery of public services. The application of OECD Fiscal Transparency Guidelines and adoption of measures for improving the institutional framework in budgetary management supported by policies to raising returns to public investments, improving the performance of the state owned enterprises (SOEs), streamlining the quality and implementation of the annual development programs (ADPs), and improving the efficiency and equity in social expenditures can be instrumental in substantially raising the efficiency of utilization of existing resources.

6.2. Raising Additional Domestic Resources

The fiscal trend shows that there has been some progress in raising the revenue-GDP ratio in Bangladesh but the ratio is still low compared with even low income country standards. The tax-GDP ratio increased till the mid 1990s mainly due to the introduction of the value added tax (VAT) but the momentum could not be sustained in later years (Table 9). At present, the revenue-GDP ratio is around 10 percent while the tax-GDP ratio is less than 9 percent. This shows that the government has not been able to mobilize adequate resources domestically to finance its development needs. The government's policy under the Medium Term Budgetary Framework (MTBF) is to achieve a revenue-GDP ratio of at least 12.2 percent (with a tax-GDP ratio of 10 percent) by FY2012. Some studies suggest that Bangladesh's revenue potential at present is in the range of 14-15 percent of GDP.⁵⁸ This indicates a wide gap between the potential and the actual collection ranging between Tk. 170 billion and Tk. 230 billion which could be collected through removing the weaknesses of the tax system. *If, say, Tk. 170 billion could be collected improving the tax-to-GDP ratio, then it would meet most of the required cost (approximately Tk. 187 billion at current prices) of the proposed policy package.*

The improvement of revenue collection would require several measures, such as expanding the tax base; curbing tax evasion; checking leakages in the tax collection system; enhancing transparency, accountability, and efficiency in revenue administration and the tax collection system; simplifying tax rules and providing more client oriented services; reducing discretionary power in tax laws; and undertaking reforms and capacity

⁵⁷ See, Mujeri (2004).

⁵⁸ See, for example, Raihan and Khondker (2010).

building of the revenue administration.⁵⁹ The low efficiency in revenue collection is due both to narrow tax bases reflecting base erosion from incentives, structural deficiencies in tax design, and poor compliance and weak tax administration. The government has taken initiatives to reform the value added and income tax systems within FY2011 which will help raise the revenue effort substantially. Moreover, there is scope for raising revenue through introducing/rationalizing other taxes, e.g. capital gains tax, inheritance tax, and expanding the net to tax profits from industrial and business enterprises. For example, flat rate taxes may be introduced to bring small (and informal sector) enterprises within the tax net.

TABLE: 9
Trends in Fiscal Indicators (as % of GDP)

Indicator	FY86	FY91	FY96	FY01	FY06	FY09
Total revenue	8.2	9.4	11.9	9.6	10.8	10.4
Tax revenue	6.9	7.7	9.7	7.8	8.7	8.6
Nontax revenue	1.3	1.7	2.2	1.8	2.1	1.8
Total expenditure	15.2	15.0	16.8	14.8	14.7	13.8
Revenue expenditure	8.0	8.7	9.1	8.1	8.8	12.1
Annual development program	7.3	6.3	7.7	6.3	5.2	3.2
Budget deficit (without grants)	7.5	7.2	5.7	5.1	3.9	4.1
Net foreign financing	6.4	6.2	3.6	2.0	1.9	1.8
Net domestic financing	1.5	1.0	2.1	2.8	2.2	2.3

Source: Ministry of Finance, *Bangladesh Economic Review*, various years and *Steps Towards Change: National Strategy for Accelerated Poverty Reduction II (Revised) FY 2009-11*, Planning Commission

Bangladesh has been identified as a low tax effort country indicating that it has significant potential of raising tax revenue both from direct and indirect taxes.⁶⁰ Bangladesh's tax buoyancy is also high showing that the tax revenue is quite responsive to GDP. This indicates large potential for raising tax revenue in the country. It is thus feasible to raise additional domestic resources through implementing proper policies and placing greater emphasis on administrative reorganization and policy reforms to address the loopholes in the revenue generation process.

In addition, the term resource mobilization means much more than taxation. It covers income from public services, public enterprises, and public utilities. Through effective measures and generating more nontax revenues, rationalizing current expenditures, and generating surplus from its departmental units and public enterprises, the government can mobilize more resources for operationalizing the basic social floor proposed in this study. In addition, as development proceeds and the level of income in the economy rises, the government should be able to mop up additional resources in the form of public borrowings and collecting small savings through appropriate mechanisms.

⁵⁹ It is observed that the statutory nominal tax rates in Bangladesh are generally high among the comparators including the value added tax and corporate income tax but Bangladesh's revenue productivity for these taxes is much lower than its comparators due to low revenue yields.

⁶⁰ Bangladesh's average tax effort index is calculated at less than 0.5 indicating that it is not utilizing its full capacity of tax revenue. Similarly, tax buoyancy ratio is more than 1.2 implying high responsiveness of tax revenue to GDP growth. See, Begum (2007).

Despite acute resource imbalances, Bangladesh's outlook in the resource mobilization front is not unmanageable in relation to the proposed policy package. It is important, however, to realize that soft options in the present context are more likely to have a limited impact on additional resource mobilization to the requisite level. The important issue would be to make serious efforts to raise public investment to at least 6-7 percent of GDP from its current level of less than 5 percent in the next 2/3 years in order to grow faster. The low rate of investment can only be raised by tapping additional resources and higher government investment would also help crowd in private investment.

For raising domestic revenues, all major aspects of the tax structure need review and adjustments including tax base and assessment procedures, exemptions and allowances, tax holiday and other facilities, reduction of multiplicity of duties and levies, and taking measures for combating unfair international trade practices. The expansion of the VAT net is urgently needed. Similarly, the land development tax needs to be rationalized based on broader considerations such as rural-urban differentiation and land use pattern. Non-tax revenue sources also need to be rationalized which would contribute a lot to raising revenues. Particularly, changes in land registration system especially abolishing the discretionary power of land registration officials and simplifying registration procedures would contribute much to raising non-tax revenues.

6.3. More Efficient Utilization of Remittances

Bangladesh is a major supplier of labor in the world market and has earned a remittance income of nearly US\$ 10 billion in FY2009.⁶¹ A sizeable amount of remittances is also sent through the unofficial channels. In recent years, remittances have exceeded 60 percent of export earnings making it the single largest source of foreign currency. The steady flow of remittances has eased foreign exchange constraint significantly turning the current account balance of the balance of payments positive in recent years and helped to increase the supply of national savings. The Bangladesh diasporas are one of the major direct investors in the country. Migration also leads to formation of new ideas and skills among the migrants themselves who in turn adopt these when they return back to Bangladesh.

The migration process still remains inefficient and the migrants suffer from significant hardship and exploitation through unregulated recruiting practices leading to high cost and fraudulence often resulting in many migrants losing their assets. The market for migrant workers is highly imperfect, characterized by high transaction costs, pervasive information gaps, and misplaced expectations. It also occurs in many destination countries, with migrants facing exploitation and a loss of rights through low and irregular wages, unacceptable working conditions, and restriction on movements. With measures to better manage and promote migration and adoption of a comprehensive overseas employment policy, Bangladesh can earn more remittances to support its development efforts. Also wide scope remains to ensure efficient remittance transfers through official channels and better utilization of remittances in productive activities. The absence of effective transfer channels and savings and investment opportunities for remittances

⁶¹ According to the estimates provided by the Bureau of Manpower Employment and Training (BMET), the total number of Bangladeshis working as short term migrants between 1976 and 2008 is 6.2 million. See Siddiqui (2009).

mean that the returnee migrants are unable to productively utilize their remittance income and are consequently forced to adopt re-migration as their livelihood strategy. Appropriate changes in policies can therefore enhance the scope for efficient transfer and effective utilization of remittances and bring benefit to migrants and their families as well as the country.

In view of the importance of remittances in the Bangladesh economy, priority is needed for improving remittance services for migrant workers with focus on expanding access, bringing the services closer to both remitters and recipients, lowering cost of remittance services, ensuring competitive exchange rate, and providing convenient saving and investment options both in foreign and local currencies.⁶² Recently, new technologies such as computer networks and telecommunications are coming into force in remittance transfer reducing both time and cost. The Bangladeshi migrant workers abroad are permitted to maintain non-resident foreign currency accounts with banks in Bangladesh which earn interest and are freely transferable abroad. Saving options at attractive interest rates are available for expatriate workers in three-year US Dollar Bonds, five-year Taka Wage Earner Development Bonds, and in five and ten year Taka Treasury Bonds issued by the government along with repatriation facility. Migrant workers may also make portfolio investment through the stock exchanges using nonresident investor's Taka account maintained with the banks.

In general, the increased inflow of remittances in Bangladesh is not matched by investment opportunities floated for the remitters. The investment products offered by the Bangladesh Bank (mentioned above) mostly satisfy the needs of the long term migrants or a section of relatively better off short term migrants. The migrant families have only limited choice except the Wage Earner Welfare Bond available in a Taka account. For ensuring more efficient utilization of remittances, diversified products are needed to match the demands and requirements of different age groups of remittance receivers as well as small remitters. Innovative and targeted packages for migrant workers and their families could facilitate more productive use of remittances especially in the rural areas. Gender differentiated products are also necessary to meet the specific requirements of the rising number of women migrants.

In addition, incentive packages are available for emigrants in terms of tax exemptions on remittances, tax free provisions for setting up agro-based industries, quota for emigrant Bangladeshis in government housing projects, discounted rates to emigrants willing to purchase denationalized industries, and similar other facilities. A common feature of the investment instruments, however, is that these are mostly aimed at investors with large capital which do not meet the requirements of small and rural migrants. In view of the

⁶² The government has taken several steps along these lines. The Bangladesh Bank (central bank of the country) has supported establishment and expansion of drawing arrangements between banks in Bangladesh and remittance intermediaries in the source countries (e.g. banks, licensed money transfer/exchange houses), setting up subsidiaries/branches of Bangladeshi banks for mobilizing remittances, ensuring faster delivery of remittance money through using services of branch network of one bank by others, and using extensive branch networks of microfinance institutions in delivery of remittances. These measures have also lowered the cost of remittance services. A 'challenge fund' has been formed to provide grant support to banks and other remittance intermediaries for financing part of the implementation cost of innovative initiatives of improving the delivery of remittances especially in the rural areas.

fact that unskilled migrant workers form the vast majority and they usually are small remitters and send money at frequent intervals, investment packages exclusively designed to meet their characteristics of remittance inflows would contribute toward promoting more efficient utilization of remittances in the country.

6.4. Public Private Partnership

Public private partnership (PPP) refers to a service or a business venture which is funded, managed, and operated through a partnership between the government and one or more private sector entities. The rationale of PPP lies in the argument that models with enhanced role of the private sector in a specific government initiative, especially involving lumpy investment, would relax government's resource constraint and, with the private organization taking the responsibility of service provision, ensure greater efficiency and better management resulting in improved service delivery while maintaining public accountability for essential aspects of service provision.

In its simple form, PPP involves a contract between the relevant public sector agency and the interested private party to provide a public service or a project output. Under the contract, the private party assumes financial, technical, and operational responsibilities and risk in the venture. There can be various alternative modes of operation of PPP. In some types of PPP, the cost of using the service is borne exclusively by the users of the service (e.g. a toll road). In other types (for instance, if the initiative is financed by the private partner(s) of the project), the capital investment is made by the private partner(s) under a contract with the government to provide agreed services and the cost of providing the service is borne wholly or in part by the government. The government's contribution to a PPP may also be in kind (e.g. transfer of existing assets). In PPP that aims to create a public good (e.g. infrastructure), one option for the government is to provide a subsidy (such as a one-time grant) to make it attractive to the private investors. In some cases, the government support may take the form of providing revenue subsidies including tax breaks or guaranteed annual revenues for a fixed period.

For moving forward, one practice is to form a consortium (involving relevant stakeholders such as construction company, maintenance company, and bank lenders), usually called a 'Special Purpose Vehicle' (SPV) to plan, construct, maintain, and operate the asset for the contracted period. In cases where the government has also invested in the project, the government usually holds an equity share in the SPV. It is the SPV that signs the contract with the government and with subcontractors to build the facility and maintain it. In the infrastructure sector, complex arrangements and contracts are needed to guarantee and secure cash flows in order to make these candidates for PPP. Initially, PPPs may be negotiated individually as one-off deals but the aim should be to install a systematic program for encouraging PPPs (e.g. the private finance initiative (PFI) in UK).

Experience shows that the provision of services in many private infrastructure projects under PPP entails substantially higher costs than under standard models resulting mainly from higher rate of return demanded by private investors although most of the income risk associated with the project is borne by the public sector. Early initiatives to promote PPP investment in infrastructure show that, in many cases, the schemes were inferior to standard model of public procurement based on competitively tendered construction of publicly owned assets (e.g. in Australia).

One reason for these negative findings was the development of formal procedures for the assessment of PPPs in which the central focus was on ‘value for money’ rather than reductions in debt. The underlying framework was one in which value for money was achieved by an appropriate allocation of risk. Although it is important for the government to seek value for money, the issue is whether the guidelines designed to achieve these goals are appropriate and whether they are correctly applied in particular cases.

Some social enterprises may be proposed that can operate with the state and commercial partners. These would unite the public sector’s commitment to social goods (e.g. health, education) with private sector’s expertise in product development and marketing. These would be not-for-profit organizations that would bridge public and private sector interests with a view toward resolving the specific incentive and financial barriers to increased industry involvement in development of effective health, education, and other basic services.

There are both successful and highly controversial cases of PPPs in different countries (e.g. airport link road, cross city and harbor tunnels in Sydney are examples of controversial projects). Private participation in railway share may involve different approach of investment either in infrastructure, rolling stock, or other areas to increase the railway transportation share as a sustainable mode of transport.

In Bangladesh, successful implementation of PPP would depend on several prerequisites, such as creating a fast growing economy with a dynamic, healthy, and vibrant financial system; ensuring stable policy environment, robust legal and business support systems, and institutions guaranteeing the rule of law; promoting large and growing domestic market; ensuring sound economic fundamentals; pursuing a steady economic reform regime; and fostering a regulatory framework that rewards entrepreneurship and risk taking.

In view of the country’s pressing needs, PPPs in agricultural research and innovations can bring meaningful changes in the existing resource utilization pattern by focusing on effective pro-poor collaborative innovative processes; improving efficiency and effectiveness of research, extension, and education services; enhancing access to new products and services especially targeting the small and disadvantaged farmers; fostering greater pro-poor innovative activity in the food and agriculture sector; and adopting varied PPP collaborative modalities, such as research consortia (e.g. private delivery of publicly-developed seeds), technology joint ventures (e.g. develop and market hybrid and other seeds, technology adoption by a consortium of public and private entities), extension services, hybrid organizations, other partnership based approaches.

Since PPP is still an emerging concept in Bangladesh, the primary need is to create a supportive institutional structure that would be able to develop, guide, and manage PPPs in an efficient and sustainable manner. This entails development of supportive national and local legislations and regulatory frameworks, institutional capabilities, and effective management and oversight structures. One of the potential areas where PPP can play an important role in raising investible resources is infrastructure building and maintenance. The development of quality infrastructure, especially in the transport sector, is an urgent priority for Bangladesh (Table 10). In this context, the challenges of the PPP approach are to strengthen capacity, and expertise in assessing infrastructure proposals, devising

procedures that would ensure fair sharing of risks and returns among the partners, adopting guidelines for finalization and implementation of PPP projects, and managing risks of potential spillover effects on fiscal expenditure and financial stability.

It should however be recognized that there is no unique formula for developing a sound PPP framework. The need is to adopt clear policies and ensure effective legal frameworks that would ensure the right balance between the interests of the public and private partners. The success would depend on creating a mutually acceptable bridge between public and private sector interests using incentives and financial instruments and adopting flexible models and approaches of private participation along with innovative partnership based processes.

As part of its strategy to allow the private sector to play a greater role, PPP in infrastructure projects and other potential areas need promotion based on transparent investment and approval criteria. It should, however, be recognized that it will take time for the PPP initiative to gain momentum and reach its full potential. In order to move forward, specific targets should be set e.g. about 2 percent of GDP in PPP related investment in 2012 reaching at least to 6 percent of GDP by 2015.

TABLE 10
Selected Transport Infrastructure in Bangladesh, 2007

Type	Route (km)	Bridge/Culvert (m)
Highways		
National	3,570	24,200 ^a
Regional	4,323	
District	13,678	
Road		
Upazila	36,168	48,296
Union	42,328	44,656
Village A	94,059	53,133
Village B	77,276	23,905
Railways		
Broad gauge	659	3,452 ^b
Meter gauge	1,831	

Note: ^a Covers all types of highways; ^b Includes both types

Source: RHD and LGED databases and Railway Handbook 2008

7. IMPACT OF GLOBAL ECONOMIC CRISIS, POLICY RESPONSES AND FISCAL AND POLICY CONSTRAINTS: AN ANALYSIS OF THE PERCEPTIONS OF KEY STAKEHOLDERS

This section presents the analyses of the perception of key stakeholders regarding fiscal and policy space for crisis response in Bangladesh. Key stakeholders include senior government officials, private-sector employers, workers' representatives, civil society representatives, and representatives from media, development partners, and academia/think tank. A total of 45 respondents were interviewed under the survey. A semi-structured interview schedule was used to collect information from the respondents.

The areas in which data were collected under the survey included the following: causes and impact of crisis in Bangladesh; policy responses in maintaining demand and employment; future employment prospects; effectiveness of policy responses; constraints on fiscal and policy space; and probable options for overcoming the constraints. Respondents were also asked to rank the answers in order of importance, significance, or severity. Ranking of the responses have been analyzed through generating mean score over all respondents for each of the response categories.⁶³

7.1. The Causes and Impact of the Crisis

In order to capture the impact of the crisis, four areas of probable impact were taken into consideration. They included the following: channels of crisis transmission; macroeconomic impact; region and/or sector specific impact; and labour market impact.

Channels of Crisis Transmission

Regarding the main channels of crisis transmission, 'fall in external demand for major traded commodities and services' has been identified as the most important channel of crisis transmission by the respondents, followed by 'fall in FDI or capital flight'. Another important channel, as identified by the respondents, includes 'fall in ODA'. 'Exchange rate shocks', 'fall in remittances', and 'inability of businesses to obtain credit' have not been considered as important channels for crisis transmission by the respondents. It should also be pointed out here that even the most important channel of crisis transmission is not considered as "very important" by the respondents as noted from the mean score analysis of the responses (Table 11). This indicates that although the adverse impact of global financial crisis has been transmitted into the country through various channels, they are not as bad as anticipated initially about the crisis.

The major traded commodities that have been adversely affected include garments and knitwear products, and leather and leather products. Of these, effect on leather and leather

⁶³ Methodological Note:

- (1) Mean scores have been generated by taking simple average of the ratings over all respondents for each of the response items in each of the sub-sections of the questionnaire;
- (2) Response items have then been arranged in ascending order of the means scores which provided the list of response items in order of importance, significance, or severity;
- (3) Results have been presented in tables following the above two points for each of the sub-sections;
- (4) In the Tables, values of the mean scores close to "1" indicate the most important, significant, or severe; whereas, values close to "3" indicate the opposite.

products has been worse than the other ones. Regarding ‘fall in FDI or capital flight’, FDI has fallen, may be because foreign investors have run into liquidity problems in home countries, as perceived by the respondents. They, however, do not have any idea about capital flight as there is no data available on this. Slowdown in ODA might have happened because of diversion of resources to the worst affected countries, as the respondents pointed out.

Regarding exchange rate, remittances and access to business credit, the respondents pointed out that exchange rate has remained, more or less, stable over the past years; remittances growth has also remained strongly positive; and banks remained flourished with excess liquidity, but the entrepreneurs faced with greater energy crisis, restrained their demand.

Macroeconomic Impact

The most important adverse macroeconomic impacts occurred in the areas of import, investment and export as perceived by the respondents. Other important macroeconomic impacts occurred, in order of importance, in the areas of employment, inflation, national GDP, government expenditure, foreign reserve, and private consumption and savings. Like the previous one, the degree of impacts in these respects is also “moderate”, not “very serious” (Table 12).

As pointed out by the respondents, export growth was much lower than expectation. There were difficulties in accessing sales opportunities for Bangladeshi goods in foreign markets because of weakening external demand and appreciation of Taka exchange rate relative to other currencies. The lower import growth was associated with a reduction in import of industrial raw materials and capital goods. This has happened, once again, due to the changes in external demand as perceived by them. Investment also suffered because of both external and internal crises (energy crisis, etc.). Because of the above reasons, employment and national GDP also suffered to some extent. However, the foreign reserves have increased due to increase in foreign assets mostly by the increase of remittances which also caused excess liquidity in the domestic economy.

However, some of the respondents hold different view in respect of macroeconomic impact of global financial crisis on Bangladesh economy. According to this view, the impact of the global crisis has been broadly neutral. The export of ready-made garments benefitted during the crisis as consumers shifted from higher to lower-priced products exported by Bangladesh. They also added that the post-crisis negative scenario of exports is largely due to domestic production problems.

Region/Sector Specific Impact

Regarding region/sector specific impact, the worst affected ones are small enterprises. Small RMG units, those were mostly running under sub-contracts, were worst affected enterprises because of reduced export demand and falling prices as pointed out by the respondents. After these small enterprises, the sectors that were affected are the leather and leather products, and garments and knitwear products. The industrial performances have also suffered in the crisis period resulted partly due to declined growth rate of exports.

In respect of the impact on worker types, unskilled labourers, fresh graduates and the women were the worst affected groups of workers. This has happened due to the reduction in growth in employment resulted from widened disequilibrium between supply and demand for labour. In terms of physical locations, urban areas, in particular the metropolitan cities of Dhaka and Chittagong, were relatively hard hit compared to rural and other towns because of close link with the external sector (Table 13).

Labour Market Impact

Regarding impact on labour market, the most significant channel were reluctance of enterprises to hire new workers and return migration from overseas (Table 14). The enterprises were reluctant to hire new workers as the growth prospects of the enterprises were low. Low growth prospects, however, were not entirely attributable to the global crisis, as some of the respondents viewed this as attributable to domestic problem (like energy crisis and management problems) as well.

There has also been some return migration from abroad because of reduced employment opportunities overseas due to global crisis. However, the proportion of return migration was not large compared to the stock of workers employed outside the country as pointed out by the respondents.

7.2. Policy Responses in Maintaining Demand and Employment

Immediate Policy Responses

Several policy responses have been undertaken to maintain the demand and employment in the country. According to the perception of the respondents, the most important policy responses were providing support to the affected sectors in general, and direct support to the selected enterprises in particular. Other important policy measures, as perceived by the respondents, included the following (arranged in order of importance): support to other policy measures including credit facilities; support to expand social security coverage and content; support to the regional administration; facilitate social dialogue and seeking alternatives to job/wage cuts; support to labour market policies; and support to expand social assistance outreach and content. However, in most of the above cases, degree of efforts made were of “moderate” in nature (that means, some efforts made, not adequate enough) as observed from the mean score presented in Table 15.

Under the policy response to provide support to the sectors, incentive packages were provided for the export oriented industries. In particular, the first and the second economic stimulus packages were declared for the monthly export oriented industries. Under direct support to the enterprises, cash incentives increased by about 2.5 percent for selected sectors. Regarding support to other policy measures, expansion of export credit facility fund at a lower interest rate, and facility for loan rescheduling were introduced.

In respect of providing support to expand social security coverage, existing social safety-net programmes have been expanded. Bangladesh has more than 30 social protection schemes. There were some additions to these schemes as well. Employment scheme for the poor is one of those. Introduction of rationing of food grains among the workers in the industrial belts at a subsidized price was also an important addition in this respect.

Regarding social dialogue, the respondents pointed out that there have been quite a number of social dialogues held among the stakeholders so that they had a proper

understanding of the situation and follow proper procedures in case of retrenchment needed. In respect of providing support to labour market policies, employment schemes for the poor, as mentioned earlier, and national service scheme in selected areas were introduced. Some of the respondents, however, pointed out that these programmes were part of the regular policy actions. Regarding support to expand social assistance outreach, both the coverage and financial entitlements were increased.

Medium to Long-term Policy Responses

Some cohesive and consistent approaches to economic and financial policies were taken by the authorities. They had some commitments to improve policy environment and coordination. They tried to set up a committee to resolve the difficulties with sector affected by crisis.

As a medium-term response, for macroeconomic stability, central bank controlled money supply, government maintained a balanced budget by reducing its spending level to match its tax revenue, and policy makers maintained exchange rate and interest rate stability. Government also used social safety-net measures during the crisis period.

Some of the respondents emphasized on developing the infrastructure, particularly electricity, as important medium to long-term policy response. They also pointed out about preparing a reasonable minimum wage in the garments sector to ensure stability in the sector.

7.3. Effectiveness of Policy Responses and Future Employment Prospects

Effectiveness of Policy Responses

As perceived by the respondents, a combination of expanded export subsidy, new employment scheme, and extended public works programmes minimized unemployment. Export subsidy was effective as pointed out by the respondents. New employment schemes, by and large, worked well, although there have been some complaints of misuse. Expansion of pre-existing social protection schemes also worked well despite some complaints of misuse as well. However, degree of effectiveness in most cases is “average” (i.e., just “effective”, not “very effective”).

There are, however, other views on this as well. Some of the respondents pointed out that the economy was not significantly affected but the government took some precautionary safeguard measures, which was appreciated, but effectiveness of those programmes were limited. They also pointed out that there were over dependence of the enterprises on the government. Enterprises did not introduce much reform to face the situation.

Future Employment Prospects

In respect of future employment prospects, majority of the respondents didn't have much to say. According to them, not much change is expected in this respect. They, however, pointed out that government intervention is needed to enforce minimum wage in the respective sectors. Others pointed out that steady economic growth including steady employment is expected over the next 3 to 5 years.

7.4. Constraints on Fiscal and Policy Space

As perceived by the respondents, the most serious constraint on fiscal and policy space was ‘lack of center to local institutionalized infrastructure to allocate and disburse stimulus measures’ followed by ‘inability to expand outreach of public sector driven measures in a short period of time’ and ‘lack of local administrative capacity to effectively and equitably implement fiscal stimulus’. Other constraints, in order of severity, are the following: politically determined allocation of relief measures at the central and local levels; lack of central administrative capacity to effectively and equitably implement fiscal stimulus and other poverty reduction/social protection packages; Lack of consensus on types and magnitude of responses amongst key policy makers; and lack of space for fiscal interventions. Of the constraints outlined above, first three constraints were considered as “very serious constraints”, whereas, the rest of the constraints were considered as just “serious constraint”. As observed from the mean score presented in Table 16.

The respondents further added that as the government significantly depends on public borrowing from both bank and non-bank sources, it keeps the interest rates high. Administrative capacity at the local levels in terms of manpower and physical presence is too inadequate. There are also lack of manpower and other resources in the public sector to cater a very large number of beneficiaries. There are also lack of resources for fiscal interventions and poor administrative capacity at the central administration to implemented programmes. There is also lake of access to reliable data in many sectors/sub-sectors, particularly on informal sectors, as pointed out by the respondents.

7.5. Options for Overcoming the Constraints

Feasible options for overcoming the constraints, as perceived by the respondents, are presented below. They are arranged in order of importance (i.e., the most important indicates highly feasible, and so on):

- Efficient utilization of existing resources and improving tax to GDP ratio;
- Automatic stabilizers (e.g., pre-existing social protection packages);
- Self insurance (e.g., accumulating foreign exchange reserves, a national stabilization fund that was developed during normal times);
- Capital account management (e.g., temporary capital controls); and
- Access to low-conditionality external financing schemes from bilateral and multilateral sources.

All these options are considered as “feasible”, though not “highly feasible” by the survey respondents (Table 17).

Regarding efficient utilization of existing resources, the respondents opined that this would require considerable reforms in public administration. Budget deficit is traditionally lower than original estimates, leaving considerable fiscal space for additional public expenditure. In respect of automatic stabilizers, the respondents pointed out that there remains considerable fiscal space to accommodate this. Regarding self insurance, accumulating large foreign exchange reserve is feasible, provided, production problems in the export sector are resolved.

Regarding capital account management, the government can issue several long-term bonds to raise capital for large infrastructure project which will in turn generate employment, as pointed out by the respondents. Finally, in respect of having access to low-conditionality external finance, the respondents pointed out that as a LDC, and a front-line country for susceptibility to climate, enhanced access to low-conditionality external financing should be feasible.

TABLE 11
The main channels of crisis transmission

Responses	Mean Score
Fall in external demand for major traded commodities	1.71
Fall in FDI or capital flight	2.00
Fall in ODA	2.47
Exchange rate shocks	2.52
Fall in remittances	2.62
Inability for businesses to obtain credit	2.68

TABLE 12
Macroeconomic Impact

Responses	Mean Score
Import	1.86
Investment	1.91
Export	1.95
Employment	2.05
Inflation	2.10
National GDP	2.14
Unemployment	2.18
Government expenditure	2.38
Foreign reserves	2.45
Private savings	2.45
Private consumption	2.45

TABLE 13
Region/sector specific impact

Responses	Mean Score
Enterprise types	1.75
Sectors	1.82
Worker types	1.95
Regions	2.19

TABLE 14
Labour market impact

Responses	Mean Score
Reluctance by enterprises to hire new workers	1.89
Return migration	1.89
Fall in outsourcing from formal sector enterprise	2.25
Fall in earnings of workers in the informal sector	2.35
Closure of formal sector enterprise	2.40
Layoffs by formal sector enterprise	2.45
Fall in earnings of workers in the formal sector	2.52

TABLE 15
Policy response

Responses	Mean Score
Support to the sectors	1.90
Direct support to enterprises	1.95
Other important policy measures: credit facilities	2.09
Support to expand social security coverage	2.15
Support to regional administration	2.16
Facilitate social dialogue	2.17
Support to labour market policies	2.42
Support to social assistance outreach	2.47

TABLE 16
Constraints on fiscal and policy space

Responses	Mean Score
Lack of center to local institutionalized infrastructure	1.40
Inability to expand outreach of public sector driven measures	1.52
Lack of local administrative capacity	1.53
Politically determined allocation of relief measures	1.68
Lack of central administrative capacity	1.95
Lack of consensus	2.00
Lack of space for fiscal interventions	2.24

TABLE 17
Options for overcoming the constraints

Responses	Mean Score
Utilisation of existing resource	1.71
Automatic stabilizers	1.85
Self insurance	2.19
Capital account management	2.21
Access to low-conditionality external finance	2.30

8. SUMMARY OF FINDINGS AND CONCLUDING OBSERVATIONS

8.1 The backdrop and objective of the study

The present study has been undertaken against **the backdrop** of the deep economic recession (dubbed as the Great Recession) suffered by many developed countries during the global economic crisis of 2008-09 and its impact on the economy of Bangladesh. Although the economy of Bangladesh was not severely affected by the crisis, its adverse effects were felt by the export-oriented sectors. And the ripple effects eventually touched employment and labour market as well. The government responded with a package of policies that was aimed primarily at the export-oriented sectors. Although there are still lingering uncertainties about the strength of the global economic recovery, it could perhaps be said that the worst is over and the economy of Bangladesh can look forward to improvements in the segments that were adversely affected by the crisis.

However, rather than being complacent and treating the recent experience as a short-term aberration in the otherwise tranquil environment prevailing in the market-based playground, it should be used as one providing a wake-up call. It would indeed be appropriate to use this experience to develop a post-crisis agenda for sustained economic growth and development with a better social face. Given the periodic recurrence of economic crises and the need for undertaking counter-cyclical policies in response to such crises, it is important to strengthen preparedness for formulating and implementing such measures. In that context, the availability of necessary fiscal space and institutional capacity is extremely important. Moreover, given the fact that the record of Bangladesh in terms of the social dimensions of development has been less impressive than the performance in the area of macroeconomic management, particular attention would need to be provided to developing capacity to undertake policies aimed at supporting progress and preserving gains on that front.

Against the backdrop mentioned above, the present study has been undertaken with **the objective** of identifying the broad elements of a possible post-crisis development agenda consisting of measures to cope with severe external shocks in future and sustain development strategies with an improved social face (especially for achieving the Millennium Development Goals--MDGs). Particular attention has been given to the employment and labour market aspects of development so that adverse effects on them during future crises can be addressed.

Basic macroeconomic picture of the country

The study started by looking at the basic **macroeconomic picture** of the country. This account started with a description of the growth experience and went on to examine the macroeconomic performance by using several criteria, e.g., (i) the adequacy of foreign exchange reserves in terms of capacity to pay for imports, in relation to overall GDP and in relation to the supply of broad money (M2), (ii) external debt as percentage of GNP/GNI, (iii) short-term debt as percentage of foreign exchange reserve, (iv) short-term capital flow in relation to GDP, (v) extent of budget deficit, (vi) growth of exports, etc. The following salient features of the performance of the economy of Bangladesh (in purely macroeconomic terms) may be recapitulated:

- GDP growth which accelerated since the early 1990s exceeded 6 percent per annum during 2003-04 to 2006-07. But there has been a steady deceleration of growth since 2005-06 which fell below 6 percent per annum during 2008-09 and 2009-10.
- Investment as percentage of GDP rose in line with GDP, but peaked in 2005-06 and has remained flat since then. Domestic savings as percentage of GDP has remained rather low (below 20 percent of GDP).
- What is more disconcerting is the low capacity of the economy to generate revenue internally. Revenue as percentage of GDP has remained below 12 percent (which is one of the lowest even compared to low income developing countries).
- The extent of budget deficit has remained under control; it has exceeded 5 percent of GDP in only two out of the last ten years. That, however, may be a reflection more of the government's capacity to implement development programmes rather than prudent management.
- The foreign exchange situation has improved over the years. Since 2006-07, the total amount of reserves has exceeded the equivalent of three months' import bill. Likewise, it has exceeded 10 percent of GDP since then. However, it has not yet attained the threshold of 20 percent of broad money (M2) which is regarded as necessary for maintaining confidence in the domestic currency.
- The debt situation of the country is also good. First, external debt as percentage of GNI has declined gradually and has remained well below 30 percent (which is regarded as the threshold that should not be exceeded by developing countries). Likewise, short-term debt as percentage of foreign exchange reserve has not exceeded 10 percent--indicating that there is no danger of default.

The impact of the global economic crisis

Turning to **the impact of the global economic crisis**, there are several channels through which the impact has been transmitted to the economy of Bangladesh. Important amongst them are trade (exports in particular), foreign direct investment, and the international migration of workers and remittances.

- While the growth of exports of frozen food, and jute goods experienced negative growth in 2008, growth of total export earning started declining in the second half of 2009. In fact, growth rate of export of ready made garments (which is the major export item of the country)declined sharply in the second half of 2009 (although it has recovered since then).
- Foreign direct investment registered substantial decline in 2009-10 (US\$ 636 million) compared to 2008-09 (US\$961million).
- The flow of international migration of workers declined substantially. The number of workers going abroad from Bangladesh declined sharply in 2009; compared to over 800,000 in 2008, the number for 2009 was less than 500,000. In fact, the monthly figures show a sharp decline after October 2009 and continuation of that trend in the first four months of 2010. However, there was no decline in the inflow of remittances.

The decline in output growth that resulted from declines in export growth and the flow of FDI had adverse **effects on the employment and labour market** situation of the country. It may be recalled in this connection, that despite good macroeconomic performance and respectable economic growth, the employment and labour market situation of the country did not register a commensurate improvement in terms of structural change towards higher productivity sectors and a reduction in overall unemployment and underemployment. Available data indicate a worsening of the situation in the wake of the economic crisis. The labour market responded to the adverse effects of the crisis through both quantity and price adjustment.

- Open unemployment rates had remained between 4.2 percent to 4.3 percent between 1999-2000 and 2005-06, but increased to 5.1 percent in 2009. Likewise, the rate of underemployment (defined as working less than 35 hours per week) increased from 24.5 percent in 2005-06 to 28.7 percent in 2009.
- A number of sectors, e.g., ready-made garments, jute goods, and frozen foods experienced significant job losses.
- It is the temporary and contract based workers who bore the major brunt of retrenchments.
- In the face of retrenchment and slowdown in hiring in the formal sectors, supply pressure must have increased on the informal sectors of the economy, causing a worsening of the situation there.
- In the absence of severance pay in most sectors/enterprises and other measures of social protection, the job losses must have had serious implications for the level of living of the affected workers and their families.
- In addition to quantity adjustment mentioned above, the labour market adjusted through the price mechanism as well. While money wages were not reduced, fringe benefits were slashed. Moreover, the depressed labour market situation was used as an argument for postponing wage adjustment. It may be recalled that after the revision of minimum wages in the RMG sector in 2006, sharp increases in the prices of food grains had eroded the real value of the money wages. Adjustment in the minimum wage took place only in August 2010.
- As a result of the adverse effects of the economic crisis on the employment and labour market situation, the achievement of MDG1b (productive employment and decent work for all including women and youth by 2015) Bangladesh has become even more difficult.

On the whole, it is clear that in macroeconomic terms, the economy of Bangladesh has performed well. However, there seems to have remained a divergence between the macroeconomic performance and performance with respect to social aspects, especially in the area of employment and labour market. Despite a healthy performance on the macroeconomic front, the performance with regard to social dimensions (e.g., employment and labour market) has not been particularly laudable. For example, the economy has not witnessed the kind of structural transformation in its labour market that is desirable in such an economy. In fact, the situation on that front appears to have worsened. While there has been an increase in unemployment and underemployment, the

rate of poverty reduction appears to have slowed down. It would thus appear that while macroeconomic strength and stability is essential from the point of view of achieving sustained growth and facing challenges posed by economic crisis, it is not a sufficient condition. It is important to devote particular attention to the social dimensions in terms of the impact of growth on poverty, income distribution and labour market and to what happens in these areas when growth falters. In that context, the treatment of social aspects in the policy package adopted in response to the global economic crisis becomes important.

Measures adopted in response to the adverse effects of global economic crisis

The government's policy response to the adverse effects of the global economic crisis included two packages of measures announced respectively in April 2009 and in June 2009 along with the budget of 2009-10. The first provided an allocation of Tk. 34.2 billion (i.e., US\$ 495.22 million, which is equivalent to 0.55 percent of GDP of 2009), while the second allocated Tk. 50 billion (US\$ 724 million, which is 0.8 percent of GDP). The packages of measures included financial and fiscal measures and policy support.

- The fiscal measures included increases in cash incentives for specific export-oriented sectors that were hit particularly hard by the economic crisis (e.g., frozen food, jute goods), additional cash incentives for exports to new markets, and new cash incentive for certain sectors.
- The financial measures included extension of the loan repayment period, reduction of interest rate on loans, facility to reschedule loans for certain sectors, etc.
- The measures of policy support included relaxing conditions for rescheduling of loans, easing of subsidies on gas and electricity, etc.
- The 100-day employment programme adopted in 2008 in the wake of the sharp increases in the prices of food grains was replaced by a programme targeted at the ultra-poor, but the allocation remained unchanged at Tk. 1,000 crore per year (about 0.19 percent of the GDP).

On the whole, it appears that while the size of the policy package adopted in response to the economic crisis was rather small, the attention to social dimensions was at best inadequate. While the allocations to social safety net programmes like Vulnerable Group Feeding (VGF) and Vulnerable Group Development (VGD) were increased in the wake of the global food crisis that preceded the economic crisis, the allocation made for an employment programme was kept unchanged. There was no provision for labour market programmes, e.g., severance pay, retraining and redeployment of retrenched workers, etc. What is particularly notable is that the policy package did not include any additional allocation for investment in infrastructure which could have led to direct employment generation (a measure widely used as part of counter-cyclical measures adopted by developed and developing countries alike).

It is true that the impact of the global economic crisis on economic growth or on employment and labour market in Bangladesh was not very severe. However, this should not give rise to complacency because such crisis has a tendency to recur, and with

increasing integration of the economy of Bangladesh into the global economy, the likelihood of more severe effects in a future crisis should not be ruled out. Hence, steps need to be taken to increase the degree of preparedness to face crises in future, and given possible adverse social dimensions of the impact of an economic crisis, preparedness to respond to crisis should also focus on the social side. The idea of a basic social floor with particular focus on employment and labour market becomes relevant in that context.

A framework for employment and labour market programmes in the context of a basic social floor

The present study suggests **a framework for employment and labour market programmes in the context of a basic social floor** which includes the following goals: (i) minimizing the adverse effects of an economic crisis on employment, (ii) mitigating the adverse effects of an economic crisis on retrenched workers, (iii) enhancing employability and redeployment of retrenched workers, and (iv) protecting investment in human capital. Policy instruments relevant for each of the above goals have been identified. For minimizing the adverse effects of economic crisis on employment, the relevant instruments would include: (a) guaranteed employment programme with built in unemployment benefits so that the programme can serve the purpose of an “automatic stabilizer” during economic downturns, (b) measures to encourage job preservation, and (c) investment in infrastructure, especially where labour based approaches can be applied. Introduction of severance pay would help mitigate the adverse effects on retrenched workers. For enhancing the employability of retrenched workers, the relevant instrument would be active labour market policies (that would include measures of retraining and redeployment). Relevant instruments for protecting investment in human capital would include programmes in the areas of health and education (e.g., conditional and unconditional cash transfers and other targeted programmes).

A review of **existing programmes of employment, social safety nets and education and health** brings out interesting facts. Some conclusions may also be drawn from such facts.

- There are a large number of social safety net programmes in the country. The allocation of employment and other safety net programmes as percentage GDP witnessed a secular decline from about one percent in 1990-91 to 0.27 percent in 2003-04, after which there was a recovery, especially in the wake of the food crisis of 2008. The ratio increased to 0.7 in 2008-09 (which is still lower than that of 1990-91). The allocation for the cash based employment programme during 2009-10 was 0.19 percent of GDP.
- The allocations under VGD and VGF were increased substantially in 2008-09 and 2009-10. There has been corresponding increases in the number of beneficiaries.
- The allocation under food for works programme was also increased substantially since 2007, and the amount of employment generated under the programme more than doubled in 2008-09 compared to 2007-08.
- It is clear from the above mentioned figures of VGD, VGF, and FFW that they played an important role in mitigating the adverse effects of the food crisis as well as the economic crisis. Hence the potential role of a universal and guaranteed employment programme should be seriously considered in raising the

preparedness of the economy to meet any future economic crisis. Such a programme would be crucial for creating a basic social floor for the poor in Bangladesh.

- There are a number of gaps in the social safety net programmes of Bangladesh which need to be addressed in order to use them for creating a basic social floor for the poor. For example the employment programme is not universal, and does not provide for any unemployment benefit. Without the latter, it cannot serve the purpose of an automatic stabilizer. Moreover, the programme is not supported by any legislation. Furthermore, the programme could be better integrated into the country's infrastructure development programme. These gaps need to be addressed in order for an employment programme to play the role of an automatic stabilizer and serve as the foundation for the basic social floor.
- The amount allocated for employment and other social safety net programmes needs to be revisited. The current allocations are rather low (especially in relation to the size of the economy). Although the declining trend of the allocations in relation to GDP has been arrested in recent years, the ratio remains below what was seen in the 1990s.
- Although the incidence of absolute poverty has declined in the 2000s, there may be large number of people who are not poor and yet vulnerable to shocks and run the risk of slipping below poverty line when hit by the adverse effects of external shocks like the recent economic crisis. The creation of a social floor would be important from the point of view of preventing such a reversal into poverty.
- A market based economy not only faces periodic economic fluctuations but also the challenge of structural adjustments to changes in the market. Active labour market policies would be needed to meet such challenges. This element, therefore needs to be included in a policy package for responding to economic crises and for sustained economic growth.

Cost of implementing the suggested employment and labour market programmes

A package of employment and labour market programmes in the context of a basic social floor as enumerated earlier would have **cost implications**; and the present study has prepared some illustrative estimates. A few highlights from the estimates are presented below.

- The cost of a guaranteed employment programme (GEP) with universal coverage of all poor households has been estimated to be Tk 132 billion per year at 2009-10 prices which is equivalent to 1.9 percent of the country's GDP. Such a programme would be able to generate employment for 3.3 million persons per day, which is equivalent to 5.7 percent of the total population below the poverty line.
- While the total cost of an employment programme with universal coverage and a built in unemployment benefit as mentioned above may appear to be high (especially in relation to what is spent now), a few qualifying remarks need to be made in this regard and some alternative estimates may also be considered.

- If the proposed GEP is dovetailed into the existing programmes of employment and other safety nets, the *additional/incremental cost* of the programme would amount to only Tk. 26.3 billion (because the current allocation to various programmes comes to Tk. 105.7 billion). Thus, with a streamlining of the existing programmes, a universal GEP can be implemented with a relatively modest addition (approximately 25 percent) to the present budgetary allocation.
- Another way of bringing down the cost of a universal GEP would be to implement it in two phases--covering the *upazilas* (administrative unit below the district level) with higher than national average poverty incidence in the first phase and the rest in the second phase.
- In either case, a GEP should be integrated with the current food for works programme and public investment in infrastructures.
- The cost of preserving some 160,000 jobs in the face of a possible economic downturn (assuming that 5 percent of production workers could face possible retrenchment) through subsidy for work-sharing has been estimated at Tk.9.85 million per year. In reality, such a programme may not be needed for a year.
- Introduction of active labour market policies and programmes (including retraining and redeployment of retrenched workers) has been estimated to be Tk. 5 billion per year at 2009-10 prices.
- The cost of increasing public investment in infrastructure (with the twin goal of catalyzing development and creating jobs) has been estimated to be Tk. 40 billion per year at 2009-10 prices.
- The total cost of the package outlined above comes to about Tk. 187 billion or 2.6 percent of GDP. And if the GEP is dovetailed into the existing programmes and its incremental cost is taken to be Tk. 26 billion, the total *incremental cost* of the package comes to about Tk. 81 billion.

Ways of meeting the cost of the suggested employment and labour market programmes

The present study takes the view **the cost of the suggested employment and labour market programmes** can be met from domestic resources by using a variety of means: (i) by increasing the efficiency of utilization of existing resources, (ii) by raising additional domestic resources, (iii) by increasing the efficiency of utilization of remittances, and (iv) by operationalizing public-private partnership. A few points may be highlighted in that context.

- Efficiency in resource utilization can be increased by raising the efficiency of administration and by rationalizing the composition of budgetary allocation among different activities. Other routes for increasing efficiency would include infusion of technology (especially ICT), emphasis on R&D, and development of human capital (especially the ability to cope with new technology).
- While the current revenue-GDP ratio is around 10 percent, the potential for Bangladesh is regarded as 14 to 15 percent of GDP. This implies that simply by removing the weaknesses in the collection system, an additional revenue of Tk. 170-Tk. 230 billion could be collected. Thus *the entire cost of the programme for*

the basic social floor in terms of employment and labour market programmes could be financed through an improved revenue effort.

- Measures needed to improve revenue collection include expansion of the tax base, curbing tax evasion, checking leakages in the tax collection system, simplifying tax rules and improving transparency, and strengthening of revenue administration.
- It is important to note that the basic social floor outlined in the present study can be attained by raising public investment to 6-7 percent of GDP from its present level of less than 5 percent of GDP.
- As for the utilization of remittances, there are schemes to channel remittances to investment. However, the measures are, by and large, oriented towards large savers/investors. And the potential for more productive utilization of remittances could be realized through innovative schemes to tap the resources of small savers.
- It should be possible to mobilize a good amount of resources, especially for investment in infrastructure and in skill development, through public-private partnership (PPP). In this area, it would be necessary to adopt clear policies and ensure legal frameworks that would ensure the right balance between the interests of public and private partners. Other pre-requisites for success in this area are a stable policy environment, robust business support system, institutions guaranteeing rule of law, transparent criteria for approval, and a regulatory framework that would reward entrepreneurship and risk-taking. In order to move forward in this area, it would be useful to start with specific targets (say, 2 percent of GDP in two years), sub-sectors, and practical instruments for implementing the programme.

Perception of stakeholders

The perceptions of relevant stakeholders obtained through a survey regarding the channels of transmission of the effects of the global economic crisis, its impact, the effectiveness of the policy responses, and constraints arising out of fiscal and policy space (presented in Section 7) are very much in line with the results obtained from an analysis of secondary data (as presented in Sections 2 through 6 of the present study).

- In the perception of the stakeholders, the government continued with its policy of maintaining balanced budget rather than adopting counter-cyclical policy.
- The perceptions confirm that the immediate policy responses were providing support to the affected sectors and focused more on the enterprises. It came out clearly from the perceptions that the support provided in the area of labour market policies was not so important in the policy responses.
- The stakeholder perceived the employment programme and other safety net programmes positively, although there were complaints of misuse and lack of effectiveness.
- The stakeholders did not consider fiscal space to be a major constraint. Issues like mechanism for disbursement of allocated funds, inability to expand outreach of public sector driven measures, and capacity to effectively and equitably implement fiscal stimulus were cited as the major factors constraining the

effectiveness of policy responses. As for the specific issue of instituting automatic stabilizers, the perception is that there is considerable fiscal space to accommodate it. This is very much in line with the data-based analysis of the feasibility of a programme focusing on employment and labour market.

Concluding remarks

To conclude, strong macroeconomic fundamentals are a necessary condition for sustained economic growth, but that is not sufficient from the point of view of social dimensions of development. While the performance of the economy of Bangladesh on the macroeconomic front has been quite satisfactory both before and during the global economic crisis, the macroeconomic strength appears to have remained disconnected from the performance with regard to social dimensions like employment and labour market. Greater attention to the latter aspect is necessary from the point of view of developing a post-crisis agenda for economic growth and development with a social face and for strengthening the country's capacity to respond to possible economic crisis in future with a better social face. A package of employment and labour market programmes within the framework of a basic social floor would appear to be important in that context. The present study demonstrates that the necessary fiscal space for implementing such a programme can be created through the country's own resources if it is prepared to make a serious effort to attain its revenue potential. Of course, it would be essential to strengthen the institutional capacity to formulate and implement such a programme.

In the above context, it is also important to have appropriate policies to counter external constraints, particularly in the face of global crisis. To be able to maintain the existing export markets of both goods and services and search for new markets are crucial. Policies are also required to attract more FDI which could help not only to generate new employment, but also to strengthen the fundamentals of the economy.

While having appropriate policies are important, strong institutional capacity is required to implement the policies efficiently and effectively. The country requires to improve institutional capacities at various levels so that policies can be effective both in terms of formulation and implementation.

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