Research Monograph 21

# LABOUR MARKET IN BANGLADESH

## CHANGES, INEQUITIES AND CHALLENGES

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# List of Acronyms

| | |
|---|---|
| BBS | Bangladesh Bureau of Statistics |
| CPI | Consumer Price Index |
| FGD | Focus Group Discussion |
| HIES | Household Income & Expenditure Survey |
| HSC | Higher Secondary Certificate |
| LFPR | Labour Force Participation Rate |
| LFS | Labour Force Survey |
| MC | Microcredit |
| NGO | Non-Government Organisation |
| OLS | Ordinary Least Square |
| RMG | Readymade Garment |
| RNF | Rural Non-Farm |
| SSC | Secondary School Certificate |
| UDE | Underemployment |
| UE | Unemployment |
| UIS | Urban Informal Sector |
| WB | The World Bank |

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# CHAPTER 1

## INTRODUCTION

### 1.1 Background

During the last decade of the twentieth century, Bangladesh achieved considerable success in acceleration of economic growth and in advancement of social development goals including poverty reduction. Current development agenda of the country includes further acceleration of economic growth and a faster pace of poverty reduction, with time bound targets. Simultaneous progress in both fronts requires judicious choice of policies and strategies so that the critical resource constraints are taken into account and the relatively abundant resources, especially unutilised labour, are intensively used. The magnitude of employment growth and improvement of productivity of employment must be adequate to ensure that the workers' earnings are not only above the poverty threshold but also offer prospects of continuous improvement in levels of living.

Strategies for income growth should, therefore, be based on an analysis of different routes to creation of employment and the constraints to such employment growth. The objective of the present study is to undertake such an analysis. Before a country persues a labour-intensive growth strategy, it must arrive at dependable estimates of unemployment/underemployment. One of the major objectives of the study is to present such estimates with disaggregation for location, gender, education level, etc. Inequality in the labour market can be an important source of inequality in the society. Such inequality will, therefore, receive attention

in this study. The study will examine the determinants of employment and earnings of labour force from households of different socio-economic strata in the rural and urban areas and arrive at policy suggestions for targeted interventions in various sections of the labour market.

Despite significant regional mobility of labour, urban and rural labour markets display significant inequality which deserves separate analysis and policy support. The study has undertaken such disaggregated data analysis. The study also provides gender-disaggregated analysis of most issues and highlights the gender dimensions of inequity in the labour market, in particular in wage and underemployment.

Acceleration of GDP growth based on absorption of un/underemployed workers is expected to lead to a transformation of the sectoral composition of employment. Structural change in the labour market is actually considered as an yardstick of the extent of modernisation of an economy. An understanding of the performance of labour market of Bangladesh, therefore, requires a focus on the structural changes. Two aspects of changes in the structure of labour market will receive attention: first, the sectoral composition and second, the status of employment (mainly paid employment and self employment). Indepth analysis of the processes of both types of transformation, from traditional sector to modern sectors and from family employment to paid employment, will be undertaken.

Bangladesh's growing labour force cannot be absorbed only through wage employment which contributes a small proportion to total employment. As a result, self/family employment is responsible for absorption of residual part of the labour force. How far

this can continue to offer prospects of income and employment growth, especially for households living below the poverty threshold, needs a closer scrutiny. Such scrutiny will be conducted through an analysis of the determinants of choice of type of employment and the scope for income enhancement through paid vs self-employment.

For an understanding of the relevance of job creation for economic growth and poverty reduction, both quantity of employment and its quality require closer attention. This requires focus on both macro and micro level issues related to labour market. The objective of the study is to combine such macro and micro level analyses, so as to provide insights into general policies for pro-poor growth process and directions for specific policies to accelerate employment growth, particularly for the poorer sections of the labour force.

A detailed outline of the components of the study has been presented in section 1.2.

## 1.2 Outline of the Study

*i) Labour Force Growth and Quality of Labour Force*

Changes in the growth of labour force during 1991-2003 will be examined in chapter 2. Growth of employment and changes of labour force participation rate (LFPR) disaggregated by gender will also be analysed in this chapter. Level of education and literacy will be used as indicators of quality of labour force and changes of these indicators will receive attention in chapter 3. The study will focus on the quality of labour force which acts as an important determinant of the ability of the poor to integrate better into and benefit more from opportunities generated by accelerated economic growth.

*ii) Nature of Un/underemployment and Determinants of Employment*

Employment can be linked with poverty through two main routes: first, the number of days for which employment is obtained (or its mirror image: the extent of un/underemployment) and second, the wage rates and the returns from self-employment. Chapter 2 will provide an indepth analysis of the first question. Chapters 5 and 6 will present data on wage and earnings from paid and self-employment respectively.

*iii) Changes in the Structure of Employment*

Progress of GDP growth in the economy is likely to result in a structural change of employment. This will be assessed through an analysis of changes in the composition of employment. An assessment of the importance of various sectors and status of employment will be provided in chapter 4.

*iv) Determinants of Access to Self-employment and Wage Employment*

Though unemployment and underemployment can affect both wage employed and self-employed labour force and cause wastage of valuable human resources, these problems can have more serious implications for the poverty process of the vulnerable wage labourer households. Number of days of employment has a direct bearing on the income of this group. The impact of employment on poverty is likely to be reinforced by the indirect impact on wage rate. These forces result in lower earnings and perpetuation of poverty. How far this has happened in Bangladesh and whether this effect may be reversed through expansion of self-employment will depend on the constraints of joining self-employment and the returns from such employment. These are discussed in chapters 5 through 8.

The study makes an attempt to understand the factors that contribute to the success of self-employment that is poverty reducing. In other words, why cannot the poor get into more remunerative self-employment of the type in which the people from upper income strata are engaged? To answer these questions the factors influencing individual's status of employment (paid employment vs self-employment) will be examined. The influence of personal and household characteristics, current poverty status and asset situation on the probability of participation in self-employment will be analysed. This analysis will be supplemented by case studies and focus group discussions (FGDs) to highlight the barriers of entry into self-employment (Chapter 6).

*v) Trends and Inequality of Wage*

Determinants of wage and its trend can throw light on the processes of accentuating inequality. In this respect both trends of real wage rate and cross sectional variation of wage should receive attention (Chapter 5).

*vi) Returns to Self-employment*

Analysis of returns from self-employment will help to identify the limits to poverty alleviation through self-employment. Case studies and regression analyses have been used to analyse the determinants of returns from self-employment (Chapter 6).

*vii) Gender Dimensions of Inequity in the Labour Market*

Gender dimensions are central elements in the analysis of employment and poverty. The male-female difference in the composition of employment and the extent of un/underemployment will receive attention in this study (Chapter 7). Differences in the scope of wage employment and self-employment will help assessment of the link between the processes of feminisation of poverty and workers participation in the hired labour

market. Scope of improvement of women's employment opportunity as a strategy for poverty reduction will also receive attention.

*viii) Education, Employment and Youth Labour Force*

The prospects of the school educated youth labour force in the labour market will be covered in this study (Chapter 8). This chapter will focus particularly on the boys and girls from poor households and ask how education and skill development can help in improving the ability of the young labour force to obtain better employment with a higher productivity and better earnings prospect.

*ix) Policy Suggestions*

The last chapter will provide detailed suggestions for employment generation along routes which may help accelerated poverty reduction. Suggestions will target specific groups among the poor.

## 1.3 Sources of Data

This study will be based on a number of sources of data.

(a) Secondary data obtained from various published sources will be used.

(b) Case studies and findings from focus group discussions (FGDs) will supplement the conclusions from the secondary data. These FGD sessions and case studies were conducted during January 2004 to June 2004. FGDs cover male and female labour force members from poor households, young unemployed persons and the less successful cases of self-employment. FGDs and case studies were conducted in four areas: Gazipur (a central district), Mymensingh (a northern district), Gaibandha (a north western district), and Dhaka city.

(c) Tables from national labour force survey reports will be used. The study will also carry out intensive statistical analysis of household (and individual) level data of the last two rounds of the Labour Force Survey (LFS) of Bangladesh Bureau of Statistics (BBS) (conducted in 1999-2000 and 2002-2003).

Among the latest three rounds of LFS, the 1999-2000 LFS report is judged to be methodologically more sound and provides data suitable for more indepth analysis. This round of the survey generated deseasonalised data through a year round survey, while other surveys were conducted during a particular month of the year. For example, the 2002-03 round was conducted during October-November 2003, which was a lean month. Moreover, the 1999-2000 questionnaire provides data disaggregated by returns from self-employment and wage employment which was not given by the 2003 LFS. Therefore, the present study uses the unit records of the 1999-2000 LFS data for an indepth analysis of hours of employment, choice of type of employment and returns from each type.

This study presents data, from 1991 to 2003, for an analysis of temporal changes in the labour market. Such comparative statistics should, however, be interpreted with great caution since there have been changes in survey methods, sample size, etc. All analyses of the present study are based on the "usual definition" of the labour forces in contrast to the extended definition used by some earlier studies.Definition of labour force is based on 15 years and above age cut-off. Appendix 1.A provides more details on the issue of definition of labour force in Bangladesh labour force surveys.

# APPENDIX 1.A

## DEFINITION OF LABOUR FORCE IN BANGLADESH LFS

Bangladesh's Labour Force Surveys changed the definition of labour force from time to time. Two criteria have been used for inclusion in the labour force: usual and extended. The 1989 and 1991 LFS used the extended definition. The LFS 1995-96 and 1999-2000 provide a large number of labour force characteristics on the basis of both definitions. The LFS 2003 used the usual definition only.

Usual definition of the labour force reflects the "usual definition" of economic activity following UN System of National Accounting. The reasons behind such labeling and whether use of this term imply that there is an "unusual" definition labelled as "extended" needs elaboration. The difference between the usual and extended definitions lies in the inclusion in the latter the "household economic activities" and whether the main activity of an adult person is "economic activity" (for example, in the case of housewives, students, etc. they may be labour force members by the extended definition). To quote from the 1999-2000 LFS, the definitions are as follows:

"Usual definition: It refers to any person aged 15 and over who was either employed (worked at least one hour in a week) for pay or profit or unemployed (seeking/ available for job) during the reference period as economically active. It excludes own household economic activities.

Extended definition: It refers to any person aged 15 years and over who was either employed (worked at least one hour in a week) for pay or profit or with/without pay or profit or unemployed (seeking/available for job) during the reference period as economically active. It includes own household economic activities (such as care of poultry and livestock, threshing, boiling, drying, and processing and preservation of food). (P. xx, LFS 1999-2000)."

Since the basis of difference is the "household economic activities," it can be easily presumed that this is more relevant for women. The extended definition would yield very high labour force participation rate of women (in the LFS 1989–1996).

Now the question is, whether there is any marked superiority of the extended definition of LFPR mentioned above. The choice is complicated by the fact that widely varying underemployment estimates were generated by the two definitions and underemployment rates based on two definitions sometimes moved in opposite directions for some groups. This has been the case during 1995-96 and 1990-2000.

To arrive at a definite choice about definition, one should take into account the question of international comparability. The extended definition is not found in use in other developing countries. In India, the national survey of employment uses a definition of labour force which is comparable to Bangladesh's "usual definition." Most of the other South Asian countries follow the "usual definition."

The extended definition may be useful to reflect the extent to which household economic activities engage the labour force. But it may be misleading to use this definition to calculate underemployment rate.

Unemployment and underemployment rates give a connotation that these labour force members are available for employment elsewhere in the economy. In contrast, the underemployed labour force engaged in household economic activities is unlikely to take up other types of self-employment or hired employment. When it is said that about one third of Bangladesh's labour force are underemployed on the basis of the extended definition, it will give a wrong basis for intercountry comparison and for drawing conclusions about availability of the labour force for non-household types of activities. Moreover, when both sets of data are released, the extended definition, giving the higher rate of underemployment, is often picked up by analysts who wish to highlight this as a policy failure.

Therefore, it will be desirable to use a single definition in the future LFS. BBS has already chosen the "usual definition" from the 2000 LFS. Some of the earlier research had to rely on data based on the extended definition because the 1989 and 1991 LFS reports provided only the extended definition based data. There has been no choice until the 1999-2000 data has been released.

*Age Cut-off Point for Defining Labour Force*

The other methodological and measurement related issue is the age cut-off point for defining labour force. Bangladesh's LFS reports of the 1980s used 10 years and above as the cut-off age for inclusion in the labour force. The LFS 2000 and 2003 used age 15 years and above as the labour force age. The LFS 1995 provides some tables for both age cut-off points.

All tables and analyses of the LFS 2002-2003 report have used age 15 years and above for defining labour force. While this cut-off is the international standard for

defining labour force,[1] this transition in the definition means that the labour force information obtained from the earlier LFS reports are not directly comparable with the latest one. Researchers must be alert to this fact when they make intertemporal comparison of labour force parameters.[2]

Inclusion of 10-15 year old persons in the labour force will have a different implication for labour force participation rate (LFPR), un/underemployment rate and other labour market parameters. For example, high underemployment rates in 1989 and 1991 may have been, to some extent, due to the use of 10 plus age range for defining labour force.

Child labour phenomenon should be kept separate from regular LFS. Regular LFS should use 15 years age as the cut-off and the analysis of labour force, employment and unemployment should be based on age 15 years and above as the criterion for inclusion in the labour force. This does not preclude the possibility of data collection on children's economic activities and monitoring child labour situation. At present BBS has been conducting some surveys covering these aspects.

[1] Some researchers have chosen 10+ age for labour market analysis although the LFS 2000 gives data based on 15+ age cut-off and unit records are available for researchers (Salmon 2001, Saha 2003).

[2] There is ample scope for confusion because the LFS 1996 and 2000 give two sets of tables and one may unintentionally overlook the age criterion mentioned with the tables' titles.

# CHAPTER 2

## GROWTH OF LABOUR FORCE, UNEMPLOYMENT AND UNDEREMPLOYMENT

### 2.1 Growth of Labour Force

In the analysis of labour market situation of densely populated countries like Bangladesh, unemployment and underemployment occupy a dominant position. A proper understanding of the under/unemployment situation requires attention to two sides of the picture: labour force growth and the growth of employment. Both sides will be examined in this chapter. Labour force growth, in turn, depends on labour force participation rate and this will be the starting point of the discussion in this Section, followed by analyses of unemployment and underemployment (Section 2.2).

Labour force participation rates (LFPRs) with two cut-off points of age (10 years and 15 years) have been shown in Table 2.1. Data on LFPR for 15 years and above aged population are available for the period 1990-91 to 2002-2003. LFPR has increased from 51.2 per cent in 1990-91 to 54.9 per cent in 1999-2000, which further increased to 57.3 per cent in 2002-03. Male LFPR is much higher than female LFPR. Female LFPR has significantly increased during the period 1991-2003, while male LFPR declined slightly during 1996-2000 and the trend reversed during 2000-2003. Similar changes in LFPR have been reflected in data for 10 years and above aged population as well.

Table 2.2 presents data on the growth of labour force and employment during the period of 1991-2003 for

which comparable data are available. Growth of labour force and employment have accelerated during the three sub-periods, 1991-1996, 1996-2000 and 2000-2003. The increases in the pace of growth of labour force are at least partially reflections of the rise of growth of population in the labour force age, which, in turn, has been associated with higher population growth rates during the 1970s and early 1980s. In addition, the rising LFPR shown in Table 2.1 contributed to accelerated labour force growth.

Some recent studies (Salmon 2001, Muqtada 2003) reported trends of employment growth, which stands in contrast to the above observations (decline during 1996-2000). These studies used age 10 years and above as the cut-off point for labour force and therefore the decline of growth of employment observed might have been due to the decline of employment of child labour achieved through deliberate policies during the second half of the 1990s.[3] An analysis of changes in the labour force (as well as types of employment, etc.) should be based on 15 years as the age criterion for defining labour force (as has been discussed in Chapter 1). In all subsequent analyses, this will be done (as far as possible). This, however, limits the scope of comparison to the period of 1996 to 2003. Most of the earlier data are not available for 15 + age group.[4]

Although a positive employment growth is shown by data presented in Table 2.2, there is a sharp difference in the picture of male and female labour force. Growth of female labour force and employment is much higher during both sub-periods. Moreover, growth of male

[3] Rahman (2005) demonstrated that there had been a reduction of both per cent and number of child workers during the late 1990s.

[4] In all subsequent tables, 15+ years has been used as the age cut-off, unless otherwise mentioned.

labour force and male employment was much lower in 1996-2000 compared to 1991-96. In contrast, growth of female labour force accelerated from 4.5 per cent per year in 1991-96 to 14.4 per cent per year in 1996-2000. This has narrowed down the gender gap in the labour market, at least in terms of share of labour force members (women constituted 18.3 per cent and 22.2 per cent of the total labour force in 1995-1996 and 2002-03 respectively). During 2000-2003, female labour force's growth rate went through a decline, but was still higher than the growth rate of male labour force (7.7 and 3.4 per cent per year, as shown in Table 2.2). Rising school enrolment of girls has contributed to this decline.

The other feature emerging from Table 2.2 is that employment growth and labour force growth are quite close. Family employment being the dominant mode of employment, it is possible that those who report themselves as labour force members, do so once they have the scope to report themselves as engaged in some form of employment. This conjecture implies that the decline of male labour force growth in 1996-2000 is likely to be a reflection of decline of employment opportunities. In other words, the high growth rate of employment is in effect reflections of the demographic feature that population of labour force age is growing and the labour market is dominated by family employment.

Table 2.3 examines the relationship between education and LFPR. Male LFPR is observed to be lower among the educated groups. No such relationship between education and female LFPR was discerned.

The acceleration of growth of female labour force and female employment is a positive feature, especially on grounds of gender equity. However, per cent of

unmarried women in the labour force declined during the late 1990s (Table 2.4). Positive implications of the growth of female employment will also depend on the quality of labour force and quality of employment. These aspects will receive attention in the following chapters.

## 2.2 Unemployment and Underemployment[5]

Table 2.5 presents data on open unemployment rates based on the conventional definition. Unemployment rates are actually very low. The figures are so low that researchers often express doubts about the quality of data.

Unemployment rate increased from 3.5 per cent in 1996 to 4.3 per cent in 2003. Unemployment rate had also increased during 1989-1996.[6] Unemployment rates are higher among women compared to men. Unemployment rates among male and female were respectively 3.4 per cent and 7.4 per cent in 1999-2000.

In addition to insufficient job creation, other forces working through the changes of the structure of labour market and characteristics of the workers have contributed to the rising trend of unemployment. For example, male and female with SSC and above level of education have entered the labour force in larger percentage who are more likely to be openly unemployed. Moreover, during the decade, formal labour market expanded where open unemployment was more likely to thrive.

Low unemployment rates shown in Table 2.5 actually reflect that the use of the conventional definition results in underestimation of unemployment rate in a country

[5] This section and parts of section 8.3 draw from Rahman (2003b).

[6] Data for 1989 and 1991 cannot be directly compared with later years because data for 1989 and 1991 are available only for 10+ age group.

like Bangladesh. This link may occur because of the following reasons:

- The LFS definition "Involuntarily out of gainful employment during the reference period (the week preceding the survey) and either has been actively looking for job or was willing to work but not looking for work because of illness or believing that no work was available" (P. 10, LFS 2003), is suitable in a situation of formal jobs and not for an informal labour market as in Bangladesh. In such an economy, a low unemployment rate reflects peoples' involvement in low productive self-employment and work sharing with family workers. An overwhelming majority of the labour force is either self-employed or unpaid family workers who do not consider themselves un-employed even if they are without work.
- Some of the "discouraged workers" who believe no work is available, leave the labour force and thus escape enumeration, reducing the number and per cent of unemployed.
- The definition of open unemployment is further inapplicable in the context of rural labour market because there is no formal job search process for such workers. The unemployed workers have no incentive to reveal their unemployed status because there is no system of unemployment benefit in this country.
- Women, especially in the rural areas, consider "looking for work" to have a negative impact on social status and therefore do not openly look for work or at least do not admit this to the interviewers.

Underemployment rather than open unemployment is more relevant for measuring surplus labour in Bangladesh. Discussion on the conceptualisation and measurement of underemployment dates back to the 1960s and 1970s (Myrdal 1966, Sen 1966, Streeton 1973). A number of methods have been used for the measurement of surplus labour prevailing in the form of underemployment (Krishna 1973, Mehra 1966, Rudra 1973).

A frequently used method is to choose a norm of standard hours of employment and those who work less than this norm are identified as underemployed. Labour Force Survey of Bangladesh uses 35 hours as the cut-off point for the calculation of underemployment rate (UDR). The LFS method of measurement of underemployment using a cut-off point based on standard weekly hours has some shortcomings. Here a person in the labour force is not supplying any information on his/her willingness to work more hours. If the willingness criterion is added, underemployment rate is likely to come down. In Indian surveys on employment, a question is asked about whether he/she sought more work and if so why. These are included in the criterion for defining underemployment in India.[7]

Data on underemployment rates, presented in Table 2.6, show that the UDR has gone through a decline during the 1990s. In 1996, the rate was 17.6 per cent while in 2000 it came down to 16.6 per cent. The decline has been the result of a decline of male under-employment rate, while female underemployment rate increased.

[7] Underemployment rate in India was found to be lower than in Bangladesh (Sundram 2001, Chadha and Sahu 2002).

The underemployment rate among female labour force increased by 7.3 percentage points. The reasons behind high underemployment among women will be discussed in section 2.3.

The underemployment rate in urban areas is much lower than in rural areas (12.2 per cent and 17.8 per cent respectively in 1999-2000). In rural areas, casual employment is prevalent and sharing of the family's consumption basket continues to be the tradition and therefore underemployed workers may subsist in the rural areas.

It should be highlighted that underemployment rate among male labour force is low. This is contrary to the usual notion of high underemployment rate which could be considered as a source of surplus labour for growing modern sectors. Even if one adds unemployment rate and underemployment rate, surplus labour among male labour force is only 10 per cent.

Underemployment rates were higher during the 1980s and 1970s (Rahman and Islam 1988, Muqtada 1973). Rahman (1996) provides a review of findings of earlier studies on underemployment and shows that underemployment rate has declined during recent years.

Over the last 15 years, GDP growth rate has accelerated (Ahluwalia and Hussain 2004, Rahman 2003), which resulted in growth of employment opportunities. But the one digit underemployment rate also reflects the fact that low income households try to take up low productive employment as a survival strategy.

The UDR in the slack period (2002-03) has been presented separately in Table 2.8. This is not comparable to estimates of earlier years because this data pertain to only the months of October-November,

2002 which is the period of the lowest employment in many sectors, especially agriculture. As expected, the underemployment rate in the slack period is high.

At this point, another complexity arising from the definition of labour force is worth highlighting. The present study uses the "usual definition" of labour force (although in some tables, data based on the extended definition have also been presented). The "extended definition" gives higher underemployment rate, since it includes persons who are engaged in household production which can take up only a few hours of a person's time. The "extended definition" includes more persons in the labour force, raising both LFPR and "underemployment rate." Table 2.9 provides under-employment rates based on the extended definition which shows that underemployment rates were 31.9 per cent and 38.5 per cent in 1999-2000 and 1995-96 respectively compared to 16.6 per cent and 17.6 per cent obtained on the basis of usual definition. Conclusions based on the extended definition, especially those related to underemployment, can sometimes be misleading.[8] In particular, the extended definition is likely to include more labour force in self/family employment and less in the paid labour force and results in high estimates of UDR. Such surplus labour may not be available for use elsewhere in the economy.

The complexities related to definition must be resolved and the future LFS reports of Bangladesh

[8] An example of such conclusion: "The share of underemployed workers, whose working time is less than 35 hours per week, is particularly high in Bangladesh. ..... The high underemployment rate registered by Bangladesh explains that even if the demand for labour will strongly increase, in the coming years, this would not necessarily imply an increase to wages" (p. 5, Salmon 2001). In contrast to this observation, real wage rates in most sectors have been increasing. This will be discussed in chapter 5.

should provide UDR based only on the usual definition of labour force.[9]

## 2.3 Underemployment Rates among Male and Female Labour Force: Methodological Issues and Social Factors

A special feature observed from data on hours of employment and underemployment rate is that the difference between male and female workers is large. Underemployment rates were 7.4 per cent and 52.8 per cent respectively in 1999-2000. This difference means that the high average underemployment rate is due to the extensive female underemployment, as has already been mentioned. An obvious question, therefore, is, what are the causes of this difference? This phenomenon is at least partially attributable to definition and methodology of estimation of UDE. Social factors are of course no less important in this context.

The methodological complexity arises from the fact that most adult women are by compulsion engaged in domestic work for a part of the day. Time input required for domestic chores can be high, especially in families with infants and old persons. Moreover, a large majority of rural households and low income households do not have access to piped water, electricity and convenient sources of fuel and as a result domestic responsibilities demand long hours. Therefore, it is not a wonder that a large majority of women are found to engage less than 35 hours (norm set by LFS) in income generating work and thus are categorised as underemployed. Does it

[9] Unemployment and underemployment have been suggested as important indicators of "Decent Work" (Bescond *et al.* 2003, Ghai 2003) and therefore the definitions chosen are relevant for both international comparability and domestic policy choices.

mean that a lower cut-off should be used for estimating UDR of women? There will be controversies around this question because most women in full-time paid jobs work 35 hours a week or more even if they are engaged in domestic work. An additional question in the survey instrument may help resolve this issue. A question on "willingness to take up additional hours of employment" should be used as an additional qualifying criterion for being counted as underemployed. Without such data female UDR is overestimated in absolute terms as well as in comparison to male UDR.

Nonetheless, the high UDR rate among female is not entirely due to data problem. Women's lower hours of work is linked to the social forces, dictating the gender division of sector and status of employment. Data in chapters 4, 5 and 6 demonstrate that women are predominantly engaged in self-employment and unpaid family employment and a major share of rural women's work go to animal husbandry in small domestic units and processing of agricultural crops. Women do not usually perform field operations in crop production activities. Such gender division of labour is dictated by patriarchal norms prevailing in the rural areas and the result of such job segmentation is that women spend a small number of hours in activities qualifying as "employment" in the labour force surveys.

Above discussion implies that male and female underemployment should receive separate attention for purposes of data collection, data analysis and policy adoption. Until the survey institutions review the methodological issues, the analysis of data should be done cautiously. UDE statistics should be reported separately for male and female labour force. Policy measures and employment generation strategies should

take these features into account. Policy issues will receive attention in chapters 7, 8 and 9.

## 2.4 Major Findings

- Labour force participation rate (LFPR) has increased over the period 1991 to 2003. Male LFPR has been fluctuating while female LFPR increased continuously.
- Both labour force growth and employment growth have accelerated over time. This reflects, at least partially, a supply-side force in the form of growth of the labour force age population.
- Unemployment rate (UE) has gone through a slight increase although in absolute terms UE rates are low, which is due to the inappropriateness of the definition in the context of the informal labour market of Bangladesh.
- Underemployment (UDE) rates were 17.6 per cent in 1996 and 16.6 per cent in 2000. UDE rates are much higher among the female labour force compared to the male labour force (52.8 per cent and 7.4 per cent respectively in the year 2000).

TABLE 2.1

**LABOUR FORCE PARTICIPATION RATES (LFPRS) IN BANGLADESH: 1989-2003**

| Year | LFPR (per cent) age 10 & above | | | LFPR (per cent) age 15 & above | | |
|---|---|---|---|---|---|---|
| | All | Male | Female | All | Male | Female |
| 1989 | 47.0 | - | - | - | - | - |
| 1990-1991 | 48.8 | 79.6 | 14.1 | 51.2 | 86.2 | 14.0 |
| 1995-1996 | 48.3 | 77.0 | 18.1 | 52.0 | 87.0 | 15.8 |
| 1999-2000 | 49.2 | 73.5 | 22.8 | 54.9 | 84.0 | 23.9 |
| 2002-03 | - | - | - | 57.3 | 87.4 | 26.1 |

**Source:** LFS (various years).

TABLE 2.2

**GROWTH RATES OF LABOUR FORCE AND EMPLOYMENT*: 1991-2003**

*(Average annual growth rate, %)*

| Year | Sex | Labour force | Employment |
|---|---|---|---|
| 1991-1996 | All | 3.4 | 2.7 |
| | Male | 2.7 | 2.3 |
| | Female | 4.5 | 5.0 |
| 1996-2000 | All | 3.2 | 3.0 |
| | Male | 1.2 | 1.1 |
| | Female | 14.4 | 14.5 |
| 2000-2003 | All | 4.6 | 4.4 |
| | Male | 3.9 | 3.4 |
| | Female | 7.1 | 7.7 |

**Source:** LFS (various years).

* Table 2.2 and all subsequent tables are based on 15+ years as labour force age.

TABLE 2.3

**LFPR AMONG POPULATION AGED 15 AND OVER BY LEVEL OF EDUCATION AND SEX, 1999-2000**

| Age group | National | | Rural | | Urban | |
|---|---|---|---|---|---|---|
| | Women | Men | Women | Men | Women | Men |
| Total | 24.0 | 84.0 | 23.1 | 84.0 | 26.5 | 83.7 |
| No schooling | 22.4 | 90.6 | 24.0 | 90.6 | 30.3 | 90.4 |
| Class I-V | 21.1 | 90.6 | 21.5 | 90.1 | 26.0 | 93.0 |
| Class VI-VIII | 18.9 | 85.2 | 20.2 | 83.6 | 23.0 | 89.6 |
| Class XI-X | 24.9 | 63.4 | 17.4 | 59.6 | 21.8 | 74.1 |
| SSC-HSC equivalent | 32.2 | 65.5 | 28.1 | 62.5 | 21.6 | 70.4 |
| Degree and above | 23.9 | 73.8 | 32.7 | 68.9 | 31.9 | 78.2 |

**Source:** LFS, 1999-2000, BBS.

TABLE 2.4

**LABOUR FORCE BY MARITAL STATUS AND SEX: 1995-1996 AND 1999-2000**

| Marital status* | Year | Both sex (%) | Male (%) | Female (%) |
|---|---|---|---|---|
| Total | 2002-03 | 100.0 | 100.0 | 100.0 |
| Never married | | 21.3 | 23.8 | 12.6 |
| Married | | 75.5 | 75.2 | 75.6 |
| Others | | 3.4 | 1.0 | 11.8 |
| Total | 1999-2000 | 100.0 | 100.0 | 100.0 |
| Never married | | 17.9 | 23.4 | 9.0 |
| Married | | 78.7 | 76.0 | 83.0 |
| Others | | 3.4 | 0.6 | 8.0 |
| Total | 1995-1996 | 100.0 | 100.0 | 100.0 |
| Never married | | 20.4 | 21.8 | 12.0 |
| Married | | 76.7 | 77.5 | 72.0 |
| Others | | 2.9 | 0.7 | 16.0 |

* 15 years and above age group, usual definition.
**Source:** LFS.

TABLE 2.5

**UNEMPLOYMENT IN BANGLADESH: 1996-2003**

| Unemployment rate (%) | 1995-1996 | 1999-2000 | 2002-2003 |
|---|---|---|---|
| **Bangladesh** | | | |
| Total | 3.5 | 4.3 | 4.3 |
| Male | 2.8 | 3.4 | 4.2 |
| Female | 7.1 | 7.4 | 4.9 |
| **Urban** | | | |
| Total | 4.8 | 3.9 | 5.0 |
| Male | 4.4 | 2.9 | 4.6 |
| Female | 6.5 | 7.6 | 6.2 |
| **Rural** | | | |
| Total | 3.1 | 5.8 | 4.1 |
| Male | 2.3 | 5.0 | 4.0 |
| Female | 8.3 | 8.2 | 4.4 |

**Source:** BBS; LFS (various years).

TABLE 2.6

**UNDEREMPLOYMENT RATES IN BANGLADESH: 1996-2000**

| Underemployment rate (%) | 1995-96 | 1999-2000 |
|---|---|---|
| **Bangladesh** | | |
| Total | 17.6 | 16.6 |
| Male | 13.0 | 7.4 |
| Female | 45.5 | 52.8 |
| **Urban** | | |
| Total | 17.1 | 12.2 |
| Male | 10.5 | 4.7 |
| Female | 35.3 | 38.2 |
| **Rural** | | |
| Total | 18.4 | 17.8 |
| Male | 13.7 | 8.1 |
| Female | 49.8 | 57.7 |

**Source:** BBS; LFS (various years).

TABLE 2.7

**SUM OF UNEMPLOYMENT RATE AND UNDEREMPLOYMENT RATE: 1996-2000**

*(per cent)*

| Male/Female | 1995-96 | 1999-2000 |
|---|---|---|
| Total | 20.5 | 20.2 |
| Male | 15.4 | 10.5 |
| Female | 49.8 | 56.4 |

**Source:** BBS; LFS (various years).

TABLE 2.8

**SLACK SEASON UNDEREMPLOYMENT RATE IN BANGLADESH: 2003**

| Slack season (October-November) Underemployment rate (%) | 2002-2003 |
|---|---|
| **Bangladesh** | |
| Total | 34.0 |
| Male | 23.0 |
| Female | 72.4 |
| **Urban** | |
| Total | 26.6 |
| Male | 15.9 |
| Female | 61.9 |
| **Rural** | |
| Total | 36.4 |
| Male | 25.2 |
| Female | 76.0 |

**Source:** BBS; LFS (2003).

TABLE 2.9

**UNDEREMPLOYMENT RATE (BY EXTENDED DEFINITION) IN BANGLADESH: 1996-2000**

| Underemployment rate (%) | 1995-96 | 1999-2000 |
|---|---|---|
| **Bangladesh** | | |
| Total | 38.5 | 31.9 |
| Male | 13.7 | 8.4 |
| Female | 79.0 | 71.2 |
| **Urban** | | |
| Total | 22.1 | 18.2 |
| Male | 10.9 | 4.9 |
| Female | 54.2 | 52.0 |
| **Rural** | | |
| Total | 42.1 | 35.0 |
| Male | 14.5 | 9.3 |
| Female | 82.4 | 74.2 |

**Source:** BBS; LFS (various years).

# CHAPTER 3

## QUALITY OF LABOUR FORCE

Productivity of labour depends on skill and educational qualifications. Wages and earnings of workers are determined by productivity and in turn by quality of labour. Rahman and Islam (2003) show that a major reason behind poverty is lack of education and skill endowment among labour force from poor households. The study found that the difference between poor and non-poor households is large in terms of quality of the labour force. In this chapter the changes in these endowments over the 1990s have been examined. In this respect two aspects deserve attention: first, the quality of the current participants of the male and female labour force and second, the access to education and skill development which influences the changes in the quality of the labour force.

### 3.1 Education and Literacy Levels of Labour Force

Data on education levels of labour force have been presented in Table 3.1. Almost half (50.1 per cent) of the labour force are without education; 13.6 per cent of the labour force have SSC and above level of education. During 1996-2000, there have been hardly any changes in these shares. Only change that had occurred during this period was that class one to ten educated labour force was 42 per cent in 1996 and 39 per cent in the year 2000. During 2000 and 2003, there has been some

increase in grades 6-10 educated labour force and degree and above level educated labour force.[10]

Table 3.2 provides a distribution of education level of labour force disaggregated by sex and location (urban-rural). It is observed that a much higher percentage of female labour force than the male labour force is without education; 58 and 48 per cent of female and male labour force respectively fall in this category. A much larger percentage of male labour force than the female labour force have primary and above level of education, 7 per cent of female labour force and 11 per cent of male labour force have SSC to Degree level of education. This difference is the outcome of two forces: lower labour force participation ratio of educated women and their lower representation in higher education.

Rural-urban difference in the quality of labour force is also large. Thirty six per cent of urban and 48 per cent of rural labour force are without education. In contrast, 26 per cent of urban and 10 per cent of rural labour force are respectively SSC or above educated. Such difference results from low school enrolment of rural children as well as from rural to urban mobility of educated labour force because of better opportunities in the urban areas.

The changes in the literacy levels of female and male labour force during the period 1996-2003 have been shown in Table 3.3. The percentage of labour force without literacy increased during this period. The increase was continuous albeit slow. Literacy was 55.5

[10] This stands in sharp contrast to human capital development in South East Asian and East Asian countries where workforce without education declined significantly during the early phases (during 1980-1990) of acceleration of GDP growth (Islam 2003).

per cent in 1996 and 53.9 per cent in 2000 and 52.5 per cent in 2003.

Literacy rate of the female labour force members is much lower than that of the male labour force members (Table 3.3). Moreover, the situation of female labour force had worsened during the second half of the 1990s.

However, the growth of the educated female labour force is high because of the small base. The number of SSC + female labour force had grown by 23 per cent over these years, whereas the number of male labour force educated upto this level had increased by 14 per cent during this period.

Within the educated labour force (SSC and above), about 18 per cent are female (in 2000). Female constitute 20 per cent and 16 per cent of educated labour force in rural and urban areas respectively. In 1995-96, women constituted 17 per cent of the total educated labour force. Thus, there has been a small improvement in this context. However, taking into account all levels, the absolute size of the educated female labour force is significant and women's role in the economy can be substantial through the contributions of the educated labour force.

Data on education level of workers by age groups have been presented in Table 3.4. In the rural areas both male and female labour force in the younger age groups have higher levels of schooling. This indicates that the increased schooling opportunities have resulted in more educated new entrants in the labour force. However, this is not sufficiently large to raise the per cent of female labour force in the categories above class VIII education. In the urban areas the same type of relationship between age of the labour force and education holds, especially for women. Among the male labour force

various age groups have similar years of schooling with a slightly smaller average for the lowest age group (Table 3.4). This indicates that in the urban areas boys continue with education and young boys with education do not enter the labour force. Aggregate data for urban male and female labour force blur the negative relationship between age and education.

Data on skill composition of the labour force have been shown in Table 3.6. In the rural area, 9 per cent of the female labour force and 37 per cent of the male labour force are skilled. In the urban area, the share of skilled are 12 per cent and 35 per cent respectively. Skill composition should be interpreted cautiously because skill is defined to include on the job skill attainment.

Above description of the education and literacy of Bangladesh's labour force at three points of time unearths certain unexpected features. Data presented in Tables 3.1 and 3.2 show that there has been an increase in the percentage of labour force without any education. This change has taken place mostly during the interval between the latest two labour force surveys. During the period of 1995-96 to 1999-2000, there has been a small change in educational composition of the labour force. Thus, when one considers the entire period of 1991 to 2003 there has been actually a decline in the overall quality of the labour force. One should probe into the reasons behind these trends and the negative features of changes in the educational composition of the labour force should be interpreted cautiously.

The explanation lies in the school enrolment trends of the young population. With a rise of school enrolment (as shown by a number of studies and reports, e.g. BIDS 2001, ERD 2002, WB 2005, GOB and UNDP 2005), labour force entrants with school education are likely to

decline in the initial phase. This trend is likely to be reversed after the interval taken to complete school education. In fact, an indication of such future changes is given by the observation that during the last three years there has been a small increase in the percentage of labour force with class IV and above level of education. It can be safely assumed that within the next few years the share of labour force with different levels of education will increase along with a balancing through reduction of share of uneducated labour force. Such conclusion will also apply to literacy of labour force. Publicity campaigns for adopting improved farm practices, better health and environmental practices and provision of extension and business services, etc. must be planned with the quality composition of the future labour force in mind. Nonetheless, the phenomenon of existing low educated labour force points towards the need for adopting pragmatic programmes for raising adult literacy, so that the nation is relieved of the burden of illiterate labour force.

## 3.2 Modern Sector Employment for Educated Labour Force

The usual hypothesis is that employment in the secondary and tertiary sectors requires educated labour force and thus lack of education may act as a constraint to access to such activities. Table 3.5 provides a comparative picture of the distribution of educational attainment of the labour force in various sectors and the two parts of the table provide a comparison between 2000 and 2003. As we can see, only three sectors are intensive of educational endowment. These are: (i) electricity, gas and water; (ii) finance and business services; and (iii) community and personal services. In each of these sectors more than one third of the workers have SSC or above level of education. However, inter-LFS

comparison does not provide a visible change in the percentage of educated workforce in most of these sectors. In some sectors the share with the highest education level has increased slightly. In manufacturing, shares of SSC and above level educated employment were 9.9 per cent in 2000 and 10.3 per cent in 2003. None of the tertiary sectors experienced a radical change in the quality of the employed labour force. The lack of significant improvement of educational composition of modern sectors in effect means that the less skill-intensive components have grown in these sectors. Employment in the low productivity sectors or in the segments requiring less education will not improve the income of workers in such employment.

## 3.3 Scope of Improvement of the Quality of Labour Force

A frequently publicised positive feature of Bangladesh's development is that school enrolment rates have increased during the 1990s (BIDS 2002, GoB & UNDP 2005). Table 3.7 presents data on the number and growth of male and female students in schools. It can be observed that the per cent increase of girls is much higher than that of the boys. This is particularly true for the students in the secondary schools where the increase in girls' and boys' enrolment has been 43 per cent and 18 per cent respectively (during 1995-2000). In primary schools, the increases during the six years were 9 per cent and 3 per cent for girls and boys respectively.

The success of school enrolment is not a sufficient indicator of an overall potential for improvement of the quality of labour force. The discrepancy arises because school enrolment statistics may have an upward bias. In addition, in recent years it is being highlighted that quality of education is declining as the number of

students per school is on the increase (WB 2002). Moreover, student-teacher ratio has gone up during these years and there is a dearth of physical facilities including the lack of supply of text books. As a result, the actual cognitive ability achieved by the students remains poor (BIDS 2001).

A recent study (Rahman 2005) shows that children from households from lower income groups have lower enrolment rates compared to better off households. This is true for both primary and secondary age groups (Table 3.9). These forces may reduce the rate of growth of primary enrolment in the coming years. The HIES data show that during the period of 1995-96 to1999-2000, primary enrolment rates declined among the poor households. This trend may be reversed through improvement in the quality of schooling and the prospects of better quality employment for school educated persons.

Access to skill development through vocational training also deserves attention. Vocational education can play an important role in giving access to employment. Government programmes in these areas include the training facilities provided through the Technical Training Centers (TTCs) and Vocational Training Institutes (VTIs). Total students in vocational training are small, as shown in Table 3.8.

The effectiveness of skill training programmes cannot be judged through the enrolment picture alone. The success of such training programmes in terms of generation of paid employment has not been impressive (Mahmud 1999). Studies show that the success of government technical training programmes is rather limited, as the employability of trained personnel

remains low. This may further discourage enrolment in these institutions.

Mahmud (1999) has also discussed the problems of lack of access of boys and girls from the poorer households to the vocational training system. The boys and girls from the poorer families who are unsuccessful in progressing along the path of general education would be more interested in vocational training. But the school drop-outs are excluded from these training institutions. Moreover, the system of hostels for girls has little flexibility. Such rigidity is responsible for the failure to generate enthusiasm among girls from the poor households.

## 3.4 Major Findings

- Half of the labour force consists of uneducated persons. Only 13.6 per cent of the labour force are educated up to SSC or above.
- Between 1996 and 2000, there has been little change in the education levels of the labour force. During 2000 and 2003, there has been some increase in the share of secondary educated ones in the labour force. At the same time, there has been an increase in the share of labour force without education.
- Women are in disadvantage in terms of quality of labour force. A larger percentage of female labour force compared to male labour force is without education.
- Urban labour force is endowed with better education. About 9.7 per cent of rural and 25.7 per cent of urban labour force are educated above SSC.

- Share of educated (SSC and above) labour force is higher in three sectors: i) electricity, gas and water; ii) finance and business services; and iii) community and personal services. None of the secondary and tertiary sectors experienced a radical change in the quality of the employed labour force during 2000-2003.
- Children from lower income groups have less scope of improving human capital through education and skill training and thus are deprived of the opportunity of better quality employment.

TABLE 3.1

**CHANGES IN EDUCATIONAL ATTAINMENT OF LABOUR FORCE: 1996-2003**

| Level of education | 2002-2003 (per cent) | 1999-2000 (per cent) | 1995-1996 (per cent) | Changes (percentage points) 2003 & 2000 | 2000 & 1996 |
|---|---|---|---|---|---|
| Total | 100.0 | 100.0 | 100.0 | | - |
| No education | 50.1 | 46.6 | 46.6 | +3.5 | 0.0 |
| Class I-V | 16.8 | 24.3 | 23.3 | -7.5 | +1.0 |
| Class VI-VIII | 10.8 | 12.0 | 9.2 | -1.2 | +2.8 |
| Class IX-X | 8.6 | 5.5 | 6.4 | +3.1 | -0.9 |
| SSC/HSC & equivalent | 9.0 | 8.5 | 8.9 | +0.4 | -0.4 |
| Degree or above | 4.6 | 4.1 | 3.6 | +0.5 | +0.5 |

**Source:** LFS (various years).

TABLE 3.2

**DISTRIBUTION OF LABOUR FORCE BY LEVEL OF EDUCATION, SEX AND LOCATION**

*(per cent)*

| Level of education | Bangladesh | | | Urban | | | Rural | | |
|---|---|---|---|---|---|---|---|---|---|
| | Both sexes | Male | Female | Both sexes | Male | Female | Both sexes | Male | Female |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| No schooling | 50.1 | 48.0 | 57.6 | 36.1 | 33.4 | 44.7 | 54.7 | 52.6 | 62.0 |
| Class I-V | 16.8 | 17.4 | 14.9 | 16.0 | 16.5 | 14.5 | 17.1 | 17.7 | 15.0 |
| Class VI-VIII | 10.8 | 11.0 | 10.1 | 12.0 | 12.1 | 11.5 | 10.4 | 10.6 | 9.7 |
| Class IX-X | 8.6 | 8.9 | 7.6 | 10.2 | 10.6 | 9.0 | 8.1 | 8.4 | 7.1 |
| SSC/HSC & equivalent | 9.0 | 9.6 | 6.8 | 15.1 | 15.9 | 12.6 | 7.0 | 7.7 | 4.8 |
| Degree & above | 4.6 | 5.0 | 3.0 | 10.6 | 11.5 | 7.7 | 2.7 | 3.0 | 1.4 |

**Source:** LFS (2003).

TABLE 3.3

**EXTENT OF LITERACY AMONG MALE AND FEMALE LABOUR FORCE: 1996-2003**

*(per cent)*

| Location and Sex | | 1996 | 2000 | 2003 |
|---|---|---|---|---|
| All | Male | 55.5 | 53.9 | 52.5 |
| | Female | 41.0 | 38.5 | 43.0 |
| | All | 53.4 | 50.6 | 50.4 |
| Urban | Male | 74.0 | 69.6 | 67.1 |
| | Female | 54.6 | 50.2 | 53.8 |
| | All | 70.3 | 65.1 | 64.4 |
| Rural | Male | 50.3 | 49.4 | 47.9 |
| | Female | 35.4 | 34.6 | 38.5 |
| | All | 48.3 | 46.4 | 45.9 |

**Source:** LFS (various years).

TABLE 3.4

**YEARS OF EDUCATION OF MALE AND FEMALE LABOUR FORCE BY AGE GROUP: 1999-2000**

| Age group | Area | Sex | Years of education |
|---|---|---|---|
| 15-24 | Rural | Male | 4.03 |
| | | Female | 3.53 |
| | | Total | 3.90 |
| | Urban | Male | 6.10 |
| | | Female | 4.75 |
| | | Total | 5.66 |
| 24-34 | Rural | Male | 3.47 |
| | | Female | 1.83 |
| | | Total | 3.06 |
| | Urban | Male | 6.43 |
| | | Female | 4.27 |
| | | Total | 5.84 |
| 35 and above | Rural | Male | 3.07 |
| | | Female | 1.37 |
| | | Total | 2.80 |
| | Urban | Male | 6.46 |
| | | Female | 3.64 |
| | | Total | 5.98 |
| Total | Rural | Male | 3.36 |
| | | Female | 2.15 |
| | | Total | 3.12 |
| | Urban | Male | 6.38 |
| | | Female | 4.20 |
| | | Total | 5.87 |

**Source:** LFS (2000).

TABLE 3.5

**DISTRIBUTION OF EMPLOYED PERSONS BY INDUSTRY AND LEVEL OF EDUCATION: 1999-2000 AND 2002-03**

*(Per cent)*

| Major industry | Total | Level of education | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | No Edu-cation | Class I-V | Class VI-VIII | Class IX-X | SSC/ HSC & Equiv. | Degree & Above | Others |
| | | 1999-2000 | | | | | | |
| Total | 100.0 | 46.9 | 24.3 | 12.0 | 5.0 | 7.8 | 4.0 | - |
| Agri. Forestry, and Fisheries | 100.0 | 56.9 | 24.4 | 10.1 | 3.6 | 4.2 | 0.8 | - |
| Mining & quarrying | 100.0 | 68.0 | 14.9 | 1.1 | 6.9 | 6.3 | 2.8 | - |
| Manufacturing | 100.0 | 39.2 | 30.0 | 16.3 | 4.7 | 7.1 | 2.7 | - |
| Electricity, gas, and water supply | 100.0 | 23.2 | 13.4 | 13.4 | 9.0 | 27.6 | 13.4 | - |
| Construction | 100.0 | 47.6 | 25.2 | 11.6 | 3.1 | 6.0 | 6.5 | - |
| Trade, hotel & restaurant | 100.0 | 32.3 | 27.6 | 17.3 | 8.5 | 11.0 | 3.3 | - |
| Transport, storage & communication | 100.0 | 54.7 | 26.9 | 9.4 | 2.7 | 4.1 | 2.2 | - |
| Finance, business, and services | 100.0 | 12.9 | 7.4 | 6.9 | 4.2 | 30.7 | 37.9 | - |
| Community, personal services, household sector & not adequately defined | 100.0 | 20.8 | 15.8 | 12.1 | 8.0 | 18.7 | 15.6 | - |
| | | 2002-2003 | | | | | | |
| Total | 100.0 | 50.6 | 17.0 | 10.8 | 8.5 | 8.7 | 4.1 | 0.3 |
| Agri. forestry & related works | 100.0 | 58.7 | 16.9 | 10.0 | 7.7 | 5.4 | 1.1 | 0.2 |
| Fishing | 100.0 | 69.1 | 14.2 | 6.5 | 5.2 | 3.9 | 0.9 | 0.3 |
| Mining & quarrying | 100.0 | 50.0 | 16.3 | 12.5 | 6.3 | 10.0 | 3.8 | 1.3 |
| Manufacturing | 100.0 | 47.3 | 19.9 | 14.0 | 8.2 | 7.0 | 3.3 | 0.4 |
| Electricity, gas, and water supply | 100.0 | 6.1 | 10.2 | 8.2 | 9.2 | 21.4 | 43.9 | 1.0 |
| Construction | 100.0 | 50.3 | 23.7 | 10.5 | 6.6 | 6.0 | 2.7 | 0.3 |
| Wholesale and retail trade | 100.0 | 37.0 | 19.4 | 14.3 | 13.0 | 12.7 | 3.3 | 0.3 |
| Hotel & restaurant | 100.0 | 45.6 | 22.7 | 15.3 | 9.1 | 5.9 | 1.4 | 0.0 |
| Transport, storage & communication service | 100.0 | 64.5 | 17.1 | 7.8 | 4.4 | 4.6 | 1.4 | 0.2 |
| Bank, insurance & finance | 100.0 | 2.7 | 4.5 | 4.9 | 7.6 | 28.3 | 51.6 | 0.4 |
| Real estate, rent, and business activities | 100.0 | 18.0 | 5.7 | 10.3 | 13.4 | 26.3 | 25.3 | 1.0 |
| Public administration | 100.0 | 7.8 | 7.2 | 10.6 | 15.7 | 35.3 | 22.0 | 1.4 |
| Education services | 100.0 | 3.6 | 3.8 | 4.4 | 7.1 | 34.3 | 46.0 | 0.8 |
| Health & social workers | | 11.3 | 6.0 | 7.9 | 14.5 | 36.1 | 23.2 | 1.0 |
| Community, personal services, household sector & others | 100.0 | 51.1 | 17.5 | 13.3 | 9.0 | 7.7 | 1.3 | 0.1 |

**Source:** LFS (various years).

TABLE 3.6

**DISTRIBUTION OF LABOUR FORCE BY SKILL**

*(per cent)*

| Area | Workers' sex | Skilled | Unskilled | Total |
|---|---|---|---|---|
| Rural | Female | 8.9 | 91.1 | 100.0 |
| | Male | 37.2 | 62.8 | 100.0 |
| Urban | Female | 11.9 | 88.1 | 100.0 |
| | Male | 34.6 | 65.4 | 100.0 |

**Source:** LFS (2000).

TABLE 3.7

**NUMBER AND GROWTH OF MALE AND FEMALE STUDENTS IN PRIMARY AND SECONDARY SCHOOLS**

| Level | Year | Number of students '(000) | | | Per cent increase during the six years | | |
|---|---|---|---|---|---|---|---|
| | | Male | Female | Total | Male | Female | Total |
| Primary | 1994-95 | 8720 | 7709 | 16429 | - | - | - |
| | 1995-96 | 9118 | 7950 | 17068 | - | - | - |
| | 1996-97 | 9194 | 8125 | 17319 | - | - | - |
| | 1997-98 | 9288 | 8341 | 17629 | - | - | - |
| | 1998-99 | 10245 | 9367 | 19612 | - | - | - |
| | 1999-00 | 9002 | 8376 | 17378 | 3.2 | 8.6 | 5.8 |
| Secondary | 1994-95 | 3204 | 2327 | 5531 | - | - | - |
| | 1995-96 | 3277 | 2511 | 5788 | - | - | -- |
| | 1996-97 | 3239 | 2718 | 5957 | - | - | - |
| | 1997-98 | 3448 | 2841 | 6289 | - | - | - |
| | 1998-99 | 3646 | 3034 | 6680 | - | - | - |
| | 1999-00 | 3788 | 3325 | 7113 | 18.2 | 42.9 | 28.6 |

**Source:** Calculated from BBS, (1998, 2002) Statistical Yearbook of Bangladesh.

TABLE 3.8

**NUMBER OF TRAINEES IN TTC AND VTIS**

*(Number)*

| Year | Male | | Female | | Total | |
|---|---|---|---|---|---|---|
| | TTC | VTI | TTC | VTI | TTC | VTI |
| 1991 | 3633 | 3646 | 200 | 52 | 3833 | 3698 |
| 1992 | 3489 | 3867 | 220 | 32 | 3709 | 3899 |
| 1993 | 3470 | 3469 | 260 | 53 | 3730 | 3522 |
| 1994 | 4423 | 3454 | 290 | 191 | 4713 | 3645 |
| 1995 | 3986 | 4890 | 350 | 828 | 4336 | 5718 |

**Source:** BANBEIS (1996).

TABLE 3.9

**ENROLMENT RATE BY AGE GROUP AND INCOME GROUP**

| Income group | Age 8-12 years | | | Age 13-17 years | | |
|---|---|---|---|---|---|---|
| | Male | Female | All | Male | Female | All |
| 1 (lowest) | 82.2 | 87.7 | 84.8 | 46.2 | 63.8 | 53.8 |
| 2 (second) | 84.3 | 90.8 | 87.4 | 52.2 | 68.0 | 58.8 |
| 3 (third) | 87.3 | 92.7 | 89.8 | 59.9 | 76.6 | 67.1 |
| 4 (highest) | 93.5 | 96.5 | 94.4 | 75.4 | 85.0 | 79.8 |
| All | 86.5 | 91.7 | 89.0 | 60.1 | 75.1 | 66.6 |

**Source:** LFS (2003).

# CHAPTER 4

## STRUCTURAL CHANGES IN THE LABOUR MARKET: SECTOR AND STATUS OF EMPLOYMENT

Economic development is expected to be associated with changes in the structure of employment. Acceleration of economic growth and improvement of the labour market situation involve employment generation in sectors with higher productivity. This involves a movement of labour force from agriculture to non-agriculture and such structural change can be used as an indicator of the transformation of the economy. Within non-agriculture the secondary sectors are expected to lead and tertiary sectors are likely to follow. This chapter examines whether Bangladesh's labour market has undergone such transformation. Changes in the composition of employment, both in terms of sector and status (paid and self-employment), will be traced (Sections 4.1 and 4.2). Linkages among structural change of labour market, hours of employment and poverty will be examined in sections 4.3, 4.4 and 4.5.

### 4.1 Changes in the Sectoral Distribution of Employment

Table 4.1 shows data on broad sectoral distribution of labour force at various points of time. Distribution of labour force by broad sectors shows that during the period of 1990-91 to 1999-2000 there has been a small decline in the share of agriculture in total employment. Agriculture absorbed 51.6 per cent of the labour force in 1990-91 which declined to 48.4 per cent in 1996. There was a reverse change in the distribution during the

period of 1995-96 to 1999-2000. In 2003 agriculture's share stood at 51.8 per cent. It should, however, be pointed out that the decline in the share of agriculture is more or less continuous for the male labour force (Table 4.2). In the last two LFS large increases in the percentage (and number) of female labour force in agriculture contributed to the reversal of the trend of agriculture's share of total labour force.

Data on distribution of labour force by detailed sector classification have been shown in Tables 4.3a and 4.3b. Comparable data on detailed sectoral distribution is available for only 1996, 2000 and 2003. The percentage of the labour force employed in the manufacturing sector was almost the same in 2000 and 2003. In addition to the per cent of employment, the absolute figures of employment have been presented in Table 4.3b. Manufacturing employment increased by 0.5 million. In contrast, agriculture absorbed 3.1 million additional workers during this period.Other sectors which absorbed a significant number of additional workers are trade, finance and community and personal service. Thus, during this period any shift of labour force from primary sectors to secondary sectors was not observed. During 1996-2000, there has been a large increase in the share of women employed in agriculture and a reduction of the share of women in manufacturing. It is difficult to explain the change of sectoral composition of the female labour force. More in-depth examination of data shows that the large increase of female employment in agriculture actually consists of women's work in animal husbandry consisting of small units for family's use. This may at least partially reflect better enumeration.[11]

While the rapid spread of micro-finance has made a contribution to women's employment in poultry/

[11] Salmon (2001) pointed out that there are problems in the sector/ occupational classification of LFS data and inconsistency between sector and occupational category.

livestock and fisheries, expansion of irrigation (boosting multiple cropping), crop diversification (incorporating horticulture) and the adoption of High-Yielding Varieties (HYV) of crops may have increased absorption of female labour in agriculture, especially in post-harvest processing of higher volumes of HYV output. However, the reduction of women's employment in manufacturing is puzzling, given the rapid growth of women's employment in the readymade garment (RMG) sector. Part of it may be attributed to data problem. LFS provides an underestimation of women's employment in the readymade garment. For example, weaving apparel (except fur) manufacturing shows employment of 659,000 and 390,000 women in the years 2000 and 2003 respectively, whereas BGMEA sources claim it to be more than one and half million.

Tables 4.1, 4.2 and 4.3 clearly show that there has been no significant structural change in the labour market, as expected, during the early periods of acceleration of economic growth. It will be useful to examine whether the change in the structure of employment (or a lack of it) is in conformity with the growth of GDP in the primary, secondary and tertiary sectors. As shown in Table 4.4, during 1996-2001 GDP growth rate in industry was higher than that of agriculture. But labour intensity of manufacturing sector is much less than agriculture. Moreover, compared to the early 1990s, growth rate in agriculture has gone through much higher acceleration compared to the other sectors. GDP growth rate in manufacturing actually decelerated during this period. The nature of industrialisation had also changed. Employment elasticity of some important sub-sectors of manufacturing had declined during this period (Rahman and Islam 2003). Therefore, it is not surprising that much of

the employment generation had taken place in agriculture.

## 4.2 Changes in the Status of Employment[12]

Before presenting data on the shifts in the status of employment, it will be useful to recapitulate the prevailing notion about the positive features of various status of employment, especially in the context of Bangladesh's labour market. Regular employment (or employee status) implies a secured flow of income. A rise in the number of workers in "employee" status along with a decline of "day labourer/casual employment" is likely to result in a rise of the number of days of employment per worker. Increase in the number of persons in "employer" category implies a growth of hired labour based enterprises. Growth of self-employment and employer role among women reflect their empowerment. Regular employment of women, especially in the formal sectors, can be more empowering than casual employment (Kabeer 2001).

Tables 4.6a and 4.6b show the distribution of male and female labour force by status of employment and the changes during 1996-2003. During this period, the share of labour force in "self-employment" category increased. Such an increase took place mainly among the male labour force. This increase was accompanied by a decline of share of unpaid family helpers. A decline of share of self-employment and increase of share of unpaid family worker category occurred among female labour force. This stands in contrast to the changes in the status of employment among the male labour force.

In 1995-96, labour force in the hired labour category (employee plus day labourer) constituted about 41 per

[12] Sections 4.1 and 4.2 draw from earlier studies of the author, especially Rahman (2005b).

cent of total. This share has fallen over the years, which was only 33.1 per cent in 2002-03. Table 4.6b shows that the share of paid employment is much lower in the rural areas and the share of self plus unpaid family employment is higher. The most glaring difference between the status of employment in rural and urban areas is the low share of regular employment (employees) in the rural area. This status contributes 10.5 per cent and 23.7 per cent of all employment in rural and urban areas respectively.

To examine the hypothesis of casualisation of labour, the rate of growth of labour force engaged in the employee and day labourer categories will be compared. Table 4.7 shows pertinent data. During 1996-2000 male labour in employee and day labourer categories have grown at annual rates of 2.8 per cent and 1.3 per cent respectively. The growth rates were 3.6 and 9.1 per cent per year respectively among the female labour force. Casualisation of hired employment is thus much faster among female. During 2000-2003, only daily employment for male workers shows a positive growth. There has been hardly any growth of regular jobs (it is negative 1.6 per cent per year).

## 4.3 Interrelationship of Sector and Status of Employment

Among the productive sectors in Bangladesh, agriculture is mainly a subsistence and family labour based activity. Traditionally large farmers used to hire one or two year round labourers and depended on casual day labourers to meet the rest of hired labour requirement. During recent years agriculture sector has undergone many changes, including use of modern irrigation, seed and fertiliser. Moreover, the average size of arable land

and the percentage of large landowners has declined. This is likely to result in an increase in labour use since smaller farms are found to use more labour per unit of land. The use of machinery for land preparation increased. The first set of changes implies a rise of hired labour demand, while the use of machinery leads to a decline of the use of hired labour. The net result is difficult to predict and can be answered only on the basis of empirical data.

Secondary and tertiary sectors are expected to be more dependent on hired labour. This will, of course, depend on the type of industry and service sector enterprises that develop.

Data on the distribution of labour force by the status of employment and sector have been shown in Table 4.5. It can be observed that self-employment is the predominant type of employment in agriculture sector. It also uses a significant percentage of casual day labourers. Hired labour use, especially regular employees is the largest in "manufacturing," followed by "community and personal services." Out of all labour force in manufacturing, 40 per cent are regular employees. In manufacturing, 1491,000 and 700,000 are "employees" and "day labourers" respectively. These two categories employ 2777,000 and 447,000 workers in the sector titled "the community/personal services" which absorbs the largest number of regular employees.

Data presented in Table 4.5 clearly demonstrate that manufacturing and service sectors dominate the use of hired labour. These sectors use a much larger number (and thus percentage) of hired labour than family labour and use a much larger number of regular hired labour than in other sectors.

Therefore, it can be concluded that a growth of regular employment will require a sustained growth of manufacturing sector and the service sector. In contrast, if the growth scenario is dominated by agriculture, trade, transport and construction sectors growth, absorption of labour force will take place mainly through "day labourer" category.

The trends of growth of labour force in the "employee" and "day labourer" categories (Table 4.7) and the casualisation of labour force have been the result of sectoral growth pattern during the decade of the 1990s. As discussed above, the pattern of GDP growth in various sectors fluctuated during the two halves of the decade (Table 4.4). Manufacturing growth decelerated during the second half of the 1990s. Therefore, the employment growth scenario was dominated by the growth of construction and other service sectors which generated employment in the casual/day labourer group.

## 4.4 Impact of Sector and Status on Hours of Employment

Table 4.11 shows the relationship between sector and hours worked and Table 4.12 shows the relationship between status of employment and hours. The highest hour of work is in the manufacturing sector. Average hours per week is the highest (Table 4.12) among the paid employees and day labourers.

Regression equations on hours of employment have been estimated to obtain the effect of sector and status after controlling for other factors. The OLS technique of multiple regression analysis has been used. Separate equations of hours worked for rural and urban labour force and for poor and non-poor households have been estimated. These are shown in Tables 4.13 and 4.14.

The explanatory variables in the equations consist of the characteristics of the workers (household's resource position and demographic composition) and dummy variables for the sector and status of employment. Since a number of explanatory variables have been included to represent factors affecting wage, this has not been included as a separate dependent variable.

Among the individual characteristics, worker's age and square of it have expected influences. The coefficient of education is negative and significant. The negative coefficient reflects the relatively higher unemployment rate among the more educated. To capture the effect of gender, two variables have been included: sex of head and ratio of female workers to total workers. Sex of head does not have a significant impact because many female-headed households receive income transfer from male earners. Ratio of female workers has a positive impact on hours of employment in all four equations.

Family assets which may influence productivity and thereby the family worker's productivity have been included. Landownership and remittances receipts (in dummy form; yes=1) are two such variables. The value of other assets was not asked in the questionnaire. Instead, a few assets (Rickshaw/van, car/bus, sewing machine, motor cycle, and shop/trade) were included in binary form (Yes/No). Therefore, dummy variables have been included for possession of these assets. In the absence of the value of an asset, it is difficult to attach analytical meaning to these variables except that "sewing machine" and "rickshaw" are poor peoples' assets. Moreover, some of the items are used for physically arduous tasks which cannot continue for long hours. However, in most equations these variables have insignificant coefficients.

The coefficient of landownership is not statistically significant in the equations. Landownership is likely to have a positive effect through its positive impact on labour productivity. This effect has been counter-balanced by a negative income effect. The coefficient of dummy variable "whether receives remittance" is negative and significant in most equations. This reflects its negative income effect. Moreover, the labour force members may not have sufficient scope for using the financial resources obtained through remittances. Remittances also have an implication for prestige and social position of households. Therefore, for workers from non-poor households the coefficients of remittances are more significant.

Status and type of employment make significant differences in hours of employment. Those engaged in formal employment in contrast to informal employment are found to work larger number of hours. Regressions show that both "wage employment" and "employee" status have positive impacts on hours in comparison to self-employment. The self-employed labour force works fewer hours than employees. The non-farm sectors, both in urban and rural areas, have significant positive coefficients and thus are making a larger contribution to employment compared to agriculture.

Values of F statistics are highly significant. Values of adjusted R-square are in the range of 0.48 to 0.29.

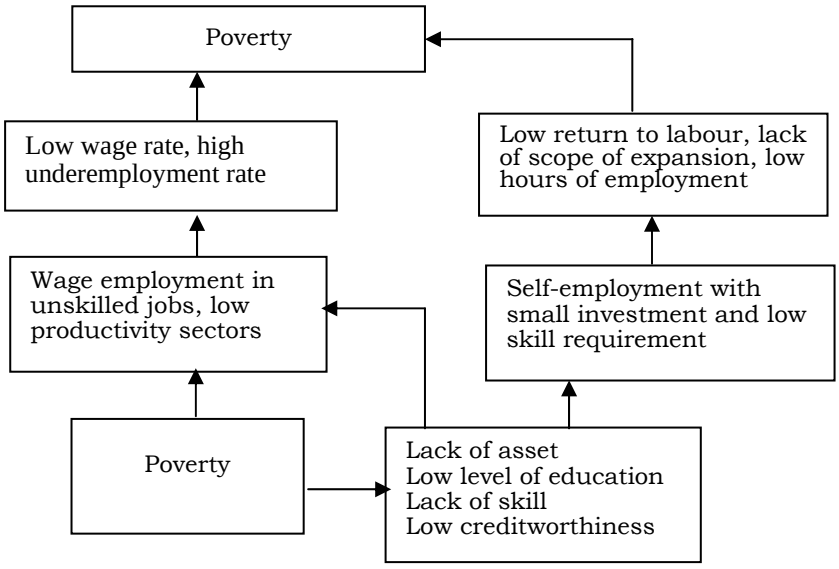
## 4.5 Linkage between Poverty and Sector/Status of Employment

One of the reasons behind poverty is lack of sufficient hours of work. Figure 4.1 presents hypothesis on the linkages between hours of employment and sector and status of employment which are self explanatory. It shows that sector and status of employment act as critical links between employment, earnings and poverty. Therefore, the empirical analysis begins with an attempt

to understand the relationship of sector and status of employment with the hours of employment of individual workers and with household poverty (Figure 4.1).

FIGURE 4.1

**HYPOTHESES ABOUT THE LINKAGES BETWEEN SELF-EMPLOYMENT, WAGE EMPLOYMENT AND POVERTY PROCESSES**




The following multiple regression analyses focus on whether self-employment, casual wage employment and "employee" roles have different implications for the chances of being in poverty. Logistic regressions have been presented with the dependent variable as an indicator of the probability of being in poverty. Dummy variables for three status of employment have been included as explanatory variables, with self-employment as the excluded variable. Among the sectors, agriculture is the base; dummy variables for other sectors have been included. Other explanatory variables include person's age, education and household's resource indicators. The

coefficients of sector and status dummies are being highlighted in the following discussion.

Regression results (Tables 4.9 and 4.10) show that day labourers have a higher probability of being poor than the self-employed. "Employee" has an insignificant coefficient and thus has no advantage over the self-employed."Employee" status is better than wage labourer, the latter has a significant positive impact on poverty. Among the sector dummies almost all co-efficients are negative, reflecting a poverty reducing impact of non-agriculture sectors. Thus, keeping other factors the same, a movement from agriculture to non-agriculture will increase chances of rising out of poverty.

## 4.6 Major Findings

The major findings on the structure of employment and its implications are summarised below.

- Structural change of employment in the form of shift from agriculture to non-agricultural sectors was small and was observed in the case with male workers only. For women, the reverse was true; the share of female labour force in agriculture remained more or less static during 1991-2003.
- Employment in agriculture is dominated by self-employment, followed by casual employment. The major sectors generating paid regular jobs are services and manufacturing.
- Non-agricultural employment and regular paid employment raise the probability of crossing the poverty threshold. Casual employment is asso-ciated with less hours of employment and occasional underemployment. Casual labourers have a higher probability of being poor compared to other modes of employment.

- When other characteristics are controlled for, workers of most of the non-farm sectors are found to work more hours and have a lower probability of being below the poverty level income.
- During 1995-2003, there has been a decline in paid employment growth. During 2000-2003, there has been an increasing casualisation of paid employment which is responsible for slow improvement of poverty among the paid workers. Casualisation of employment is much higher among female labour force compared to male labour force.
- An accelerated growth of manufacturing sector can help reverse the situation through creation of regular jobs, and policies must be geared in this direction.
- Policies and strategies for GDP growth in agri-culture should keep in mind the employment concern.

TABLE 4.1

**DISTRIBUTION OF LABOUR FORCE BY BROAD ECONOMIC SECTOR: 1991-2003**

| Year | Agriculture | | Non-agriculture | | Total |
|---|---|---|---|---|---|
| | (a) | (b) | (a) | (b) | |
| 1990-91 | 67.6 | 51.8* | 32.4 | 48.4* | 100.0 |
| 1995-96 | 63.2 | 48.9 | 36.8 | 51.6 | 100.0 |
| 1999-2000 | 62.9 | 50.8 | 37.1 | 48.7 | 100.0 |
| 2002-2003 | - | 51.7 | - | 48.2 | 100.0 |

**Source:** LFS (various years).
**Note:** (a) Extended definition. (b) Usual definition.
* 10+ age, Others age 15+ years.

TABLE 4.2

**DISTRIBUTION OF MALE AND FEMALE LABOUR FORCE BY BROAD ECONOMIC SECTOR: 1991-2003**

| Year | Male | | | Female | | |
|---|---|---|---|---|---|---|
| | Agricul-ture | Non-Agriculture | Total | Agricul-ture | Non-Agriculture | Total |
| 1990-1991 | 54.4 | 45.6 | 100.0 | 33.5 | 66.5 | 100.0 |
| 1995-1996 | 52.3 | 47.7 | 100.0 | 27.8 | 72.2 | 100.0 |
| 1999-2000 | 51.8 | 48.2 | 100.0 | 46.9 | 53.1 | 100.0 |
| 2002-2003 | 49.8 | 51.2 | 100.0 | 58.7 | 42.3 | 100.0 |

**Note:** Usual definition, age 15+ for 1996, 2000, and age 10+ for 1991.
**Source:** LFS (various years).

TABLE 4.3A

**DISTRIBUTION OF EMPLOYED PERSONS BY INDUSTRY AND SEX: 1996-2003**

*(Per cent)*

| Major Industry | 1995-96 | | | 1999-2000 | | | 2002-2003 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Male | Female | Total | Male | Female | Total | Male | Female |
| Agri. forestry and fisheries | 48.9 | 52.3 | 27.8 | 50.8 | 51.8 | 46.2 | 51.7 | 49.8 | 58.7 |
| Mining & quarrying | 0.1 | 0.1 | 0.0 | 0.5 | 0.3 | 1.0 | 0.2 | 0.2 | 0.0 |
| Manufacturing | 10.2 | 7.7 | 25.3 | 9.5 | 7.5 | 17.7 | 9.8 | 7.6 | 17.3 |
| Electricity, gas and water supply | .3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.3 | 0.1 |
| Construction | 2.9 | 3.1 | 1.5 | 2.8 | 3.2 | 1.3 | 3.5 | 4.2 | 1.0 |
| Trade, hotel & restaurant | 17.2 | 18.5 | 9.8 | 15.8 | 18.2 | 6.3 | 15.1 | 18.6 | 2.5 |
| Transport, storage and communication | 6.3 | 7.2 | 0.7 | 6.3 | 7.8 | 0.6 | 6.8 | 8.7 | 0.3 |
| Finance and business services | 0.6 | 6.6 | 0.3 | 1.0 | 1.2 | 0.6 | 0.5 | 0.6 | 0.2 |
| Community and personal services and others | 13.6 | 10.1 | 34.9 | 12.9 | 9.6 | 26.2 | 12.2 | 9.9 | 20.1 |
| All | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

**Source:** LFS (various years).

**Note:** Table 4.3a and all subsequent tables (unless otherwise mentioned) are based on the "Usual definition" of the labour force and 15 years and above as the age cut-off for being labour force member.

TABLE 4.3B

**NUMBER OF EMPLOYED PERSONS BY INDUSTRY: 1996-2003**

*(in million)*

| Major industry | 1996 | 2000 | 2003 |
|---|---|---|---|
| Agri. forestry and fisheries | 17.0 | 19.8 | 22.9 |
| Mining & quarrying | - | 0.2 | 0.1 |
| Manufacturing | 3.5 | 3.7 | 4.3 |
| Electricity, gas and water | 0.1 | 0.1 | 0.1 |
| Construction | 1.0 | 1.1 | 1.5 |
| Trade, hotel & restaurant | 6.0 | 6.1 | 6.7 |
| Transport, storage and communication | 2.2 | 2.5 | 3.0 |
| Finance and business services | 0.2 | 0.4 | 0.3 |
| Community and personal services and others | 5.1 | 5.1 | 5.2 |

**Source:** LFS (various years).

TABLE 4.4

**TREND GROWTH RATE OF GDP FROM AGRICULTURE, INDUSTRY AND SERVICE SECTORS (AT CONSTANT 1995/96 PRICES)**

| Period | GDP Growth (per cent per year) | | | |
|---|---|---|---|---|
| | Agriculture | Industry | Service | All Sectors |
| 1986-1991 | 2.19 | 5.06 | 3.58 | 3.46 |
| 1991-1996 | 1.50 | 7.81 | 4.62 | 4.50 |
| 1996-2001 | 5.07 | 6.42 | 4.86 | 5.29 |

**Source:** Rahman (2003a).

TABLE 4.5

**EMPLOYED PERSONS BY STATUS OF EMPLOYMENT AND INDUSTRY, 1999-2000**

*(in thousand)*

| Major industry | Status of Employment | | | | | |
|---|---|---|---|---|---|---|
| | Total | Self-employed/ own account worker | Em-ployer | Em-ployee | Unpaid family helper | Day labourer |
| Total | 38979 | 18013 | 155 | 6400 | 4931 | 9483 |
| Agri. forestry and fisheries | 19785 | 8468 | 28 | 686 | 3391 | 7214 |
| Mining & quarrying | 174 | 51 | 9 | 16 | 11 | 87 |
| Manufacturing | 3721 | 1126 | 27 | 1491 | 378 | 699 |
| Electricity, gas and water supply | 134 | 23 | 0 | 71 | 12 | 28 |
| Construction | 1095 | 304 | 18 | 108 | 42 | 623 |
| Trade, hotel & restaurant | 6153 | 4730 | 43 | 593 | 611 | 178 |
| Transport, storage and communication | 2471 | 1814 | 1 | 412 | 49 | 193 |
| Finance and business services | 403 | 134 | 1 | 245 | 6 | 15 |
| Community and personal services | 5043 | 1363 | 25 | 2777 | 429 | 447 |

**Source:** LFS (2000).

TABLE 4.6A

**DISTRIBUTION OF EMPLOYED PERSONS BY STATUS OF EMPLOYMENT AND SEX: 1996-2003**

*(Per cent)*

| Status of employment | 1995-1996 | | | 1999-2000 | | | 2002-2003 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Male | Female | Total | Male | Female | Total | Male | Female |
| Self-employed | 45.4 | 47.8 | 31.3 | 46.7 | 51.4 | 26.6 | 44.8 | 50.6 | 24.5 |
| Employer | 0.4 | 0.4 | 0.5 | 0.3 | 0.3 | 0.0 | 0.4 | 0.4 | 0.2 |
| Employee | 16.8 | 14.9 | 28.5 | 16.7 | 15.8 | 20.3 | 13.7 | 13.8 | 13.4 |
| Unpaid family helper | 12.0 | 11.0 | 18.6 | 12.0 | 6.4 | 34.1 | 18.4 | 9.9 | 48.0 |
| Day labourer | 25.3 | 26.0 | 21.2 | 24.3 | 26.1 | 19.0 | 20.0 | 22.9 | 9.6 |
| Others | | | | | | | 1.7 | 1.3 | 4.3 |
| All | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

**Source:** BBS: LFS (various years).

TABLE 4.6B

**DISTRIBUTION OF EMPLOYED PERSONS BY STATUS OF EMPLOYMENT, SEX AND LOCALITY: 2003**

*(Per cent)*

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

**Source:** LFS (2003).

TABLE 4.7

**GROWTH OF PAID EMPLOYMENT BY TYPE OF EMPLOYMENT**

*(per cent per year)*

| Type | | 1996-2000 | 2000-2003 |
|---|---|---|---|
| Employee | Male | 2.8 | -0.9 |
| | Female | 3.6 | -5.9 |
| | Total | 3.0 | -1.6 |
| Day labourer | Male | 1.3 | +0.8 |
| | Female | 9.1 | -12.3 |
| | Total | 2.3 | -2.2 |

**Source:** Calculated from LFS data.

TABLE 4.8

**UNDEREMPLOYMENT RATE AMONG VARIOUS STATUS OF EMPLOYMENT: 1995-96 AND 1999-2000**

*(Per cent)*

| | 1995/96 | | | 1999/2000 | | |
|---|---|---|---|---|---|---|
| | All | Male | Female | All | Male | Female |
| Self-employed | 18.39 | 14.00 | 58.70 | 15.18 | 8.89 | 62.53 |
| Employer | 31.65 | 21.05 | 84.00 | 26.80 | 17.44 | 100.00 |
| Employee | 7.07 | 4.87 | 14.07 | 5.62 | 3.03 | 13.42 |
| Unpaid family helper | 38.57 | 32.68 | 40.32 | 54.4 | 17.77 | 81.24 |
| Day labourer | 11.65 | 8.70 | 33.08 | 8.00 | 4.32 | 28.72 |

**Source:** Calculated from LFS data.

TABLE 4.9

**DETERMINANTS OF POVERTY STATUS: RESULTS OF LOGISTIC REGRESSION: RURAL**

| Explanatory variables | Coefficient | Standard error | Significance |
|---|---|---|---|
| Age of head of household | -.04 | .02 | .01 |
| Square of age of head | .0004 | .0002 | .02 |
| Educ of head | -.24 | .03 | .00 |
| Educ of other workers | -.11 | .02 | .00 |
| Sex of head | -.18 | .17 | .28 |
| Number of child worker | .43 | .08 | .00 |
| Whether wage labourer | 1.26 | .11 | .00 |
| Whether employee | .21 | .13 | .11 |
| Whether formal sector | -.52 | .10 | .00 |
| Whether manufacturing | -.12 | .09 | .21 |
| Whether construction | -.46 | .18 | .01 |
| Whether trade | -.30 | .08 | .00 |
| Whether transport | .20 | .15 | .17 |
| Whether service | -.26 | .41 | .52 |
| Whether other sector | -.22 | .10 | .03 |
| Number of dependent | .56 | .03 | .00 |
| Number of workers | .33 | .06 | .00 |
| Ratio of female workers | .60 | .16 | .00 |
| Whether employer | -.82 | .80 | .30 |
| Land ownership | -.003 | .0003 | .00 |
| Whether remittance receipt | -1.99 | .23 | .00 |
| Asset1 | -.34 | .13 | .00 |
| Asset2 | -.14 | .19 | .46 |
| Asset3 | -1.75 | .54 | .00 |
| Asset4 | -6.42 | 5.30 | .23 |
| Asset5 | -.54 | .10 | .00 |
| Constant | .72 | .40 | .03 |
| -2 log likelihood | 4664.2 | | |

| Per cent correct prediction | |
|---|---|
| Poor | 88.4 |
| Non-poor | 55.3 |
| Overall | 77.3 |

**Source:** Rahman and Islam (2003).

TABLE 4.10

**DETERMINANTS OF POVERTY STATUS: RESULTS OF LOGISTIC REGRESSION: URBAN**

| Explanatory variables | Coefficient | Standard error | Significance |
|---|---|---|---|
| Age of head of household | -.02 | .02 | .21 |
| Square of age of head | .0001 | .0002 | .75 |
| Educ of head | -.46 | .03 | .00 |
| Educ of other workers | -.10 | .02 | .00 |
| Sex of head | .16 | .17 | .34 |
| Number of child worker | .09 | .08 | .29 |
| Whether wage labourer | .47 | .13 | .00 |
| Whether employee | -.02 | .10 | .82 |
| Whether formal sector | -.42 | .09 | .00 |
| Whether manufacturing | -.30 | .08 | .00 |
| Whether construction | -.55 | .14 | .00 |
| Whether trade | -.52 | .08 | .00 |
| Whether transport | -.50 | .10 | .00 |
| Whether service | -1.01 | .26 | .00 |
| Whether other sector | -.27 | .08 | .00 |
| Number of dependent | .59 | .03 | .00 |
| Number of workers | .40 | .08 | .00 |
| Ratio of female workers | .95 | .17 | .00 |
| Whether employer | -1.21 | .58 | .04 |
| Land ownership | -.005 | .0007 | .00 |
| Whether remittance receipt | -2.49 | .31 | .00 |
| Asset1 | -.72 | .11 | .00 |
| Asset2 | .49 | .20 | .01 |
| Asset3 | -1.51 | .44 | .00 |
| Asset4 | -1.19 | .93 | .20 |
| Asset5 | -.25 | .13 | .05 |
| Constant | .24 | .41 | .56 |
| -2 log likelihood | 4501.5 | | |

| Per cent correct prediction | |
|---|---|
| Poor | 73.0 |
| Non-poor | 79.2 |
| Overall | 76.5 |

**Source:** Rahman and Islam (2003).

TABLE 4.11

**AVERAGE HOURS WORKED BY INDUSTRY AND SEX**

| Industry & Sex | 1999-2000 | | | Industry & Sex | 1995-1996 | | |
|---|---|---|---|---|---|---|---|
| | All | Male | Female | | All | Male | Female |
| Total | 46 | 49 | 32 | Total | 46 | 48 | 36 |
| Agriculture | 44 | 48 | 28 | Agri. forestry and fisheries | 45 | 46 | 32 |
| Manufacturing | 45 | 51 | 36 | Manufacturing | 47 | 52 | 37 |
| Electricity, gas and water supply | 47 | 48 | 40 | Electricity, gas and water | 43 | 43 | 45 |
| Construction | 50 | 51 | 39 | Construction | 48 | 49 | 40 |
| Whole sale & retail trade | 49 | 51 | 34 | Trade, hotel & restaurant | 49 | 50 | 32 |
| Hotel and restaurants | 54 | 56 | 39 | | | | |
| Trans, storage & comm services | 51 | 52 | 43 | Transport, storage & Comm. | 52 | 53 | 40 |
| Bank, insu. & financial intermidi | 47 | 47 | 46 | Financial and business services | 48 | 49 | 42 |
| R/state Ren. & busi. activities | 49 | 53 | 25 | | | | |
| Com. social & personal, others | 40 | 50 | 33 | Comm. & perso. service | 46 | 49 | 40 |
| Education | 44 | 46 | 40 | Not adequately defined | 27 | 36 | 15 |
| Health and social work | 48 | 47 | 47 | | | | |
| Public administration | 46 | 46 | 43 | | | | |

**Source:** LFS (various years).

TABLE 4.12

**AVERAGE WEEKLY HOURS WORKED BY STATUS OF EMPLOYMENT AND SEX: 1999-2000**

| Status in employment | Both sexes | Male | Female |
|---|---|---|---|
| Self-employment/ own account workers | 47 | 49 | 30 |
| Employer | 41 | 46 | 4 |
| Employee | 49 | 51 | 46 |
| Unpaid family helper | 32 | 43 | 24 |
| Day labourer | 49 | 51 | 38 |

**Source:** LFS (2000).

TABLE 4.13

**DETERMINANTS OF HOURS OF EMPLOYMENT: OLS REGRESSION FOR NON-POOR HOUSEHOLD IN URBAN AND RURAL AREAS**

| Explanatory variables | Urban Areas | | | Rural Areas | | |
|---|---|---|---|---|---|---|
| | Coeffi-cient | Value of 't' | Signifi-cance | Coeffi-cient | Value of 't' | Signifi-cance |
| Constant | 41.91 | 19.41 | .00 | 25.87 | 12.48 | .00 |
| Age of head | -.33 | -3.71 | .00 | -1.1E-02 | -.13 | .90 |
| Age of head square | .00 | 3.06 | .00 | -6.3E-04 | -.77 | .44 |
| Workers education | -.49 | -4.63 | .00 | -.61 | -4.26 | .00 |
| Workers sex dummy (female=0, male = 1) | 17.60 | 32.05 | .00 | 23.28 | 51.43 | .00 |
| No. of child workers, Age 8-14 | -.29 | -.70 | .48 | -.91 | -2.29 | .02 |
| Whether wage employment | 1.73 | 2.16 | .03 | 3.06 | 4.09 | .00 |
| Whether employee | 1.90 | 3.57 | .00 | 1.06 | 1.65 | .10 |
| Formal dummy | 1.80 | 3.41 | .00 | 1.04 | 1.84 | .07 |
| Manufacturing | 3.63 | 9.88 | .00 | 1.14 | 2.63 | .01 |
| Construction | 4.10 | 5.13 | .00 | 2.09 | 2.81 | .01 |
| Trade | 3.62 | 11.00 | .00 | .84 | 2.26 | .02 |
| Transport | 2.55 | 5.14 | .00 | 3.15 | 4.00 | .00 |
| Others | 2.57 | 3.21 | .00 | .67 | .45 | .65 |
| Service | 1.44 | 4.31 | .00 | .81 | 1.91 | .06 |
| No. of Male + Female workers (15+) | -2.99 | -12.49 | .00 | -.62 | -3.88 | .00 |
| No. of Non-workers | .42 | 3.38 | .00 | .38 | 3.08 | .00 |
| Ratio of female worker | 5.96 | 6.05 | .00 | 4.07 | 3.79 | .00 |
| Whether employer | -4.41 | -2.83 | .01 | -4.66 | -1.57 | .12 |
| Land ownership | -.00 | -1.64 | .10 | 7.53E-04 | 1.37 | .17 |
| Whether receive remittance from abroad | -2.36 | -2.66 | .01 | -2.15 | -2.51 | .01 |
| Shop/trade dummy | .57 | 1.15 | .25 | 1.13 | 1.81 | .07 |
| Rickshaw/Van dummy | -2.12 | -1.47 | .14 | 2.64 | 2.58 | .01 |
| Motor cycle/Auto Taxi dummy | 2.13 | 1.81 | .07 | 3.96 | 2.70 | .01 |
| Taxi/Bus dummy | 5.22 | 3.10 | .00 | -7.31 | -2.06 | .04 |
| Cycle/Sewing machine etc. dummy | -1.50 | -2.60 | .01 | .33 | .69 | .49 |
| Value of F | 76.15 | | .00 | 135.39 | | .00 |
| Adjusted R-Square | 0.29 | | | 0.48 | | |
| Sample size | 4520 | | | 3703 | | |

**Source:** Estimated from LFS 2000 data.

TABLE 4.14

**DETERMINANTS OF HOURS OF EMPLOYMENT: OLS REGRESSION FOR POOR HOUSEHOLD IN RURAL AND URBAN AREAS**

| Explanatory variables | Urban Areas | | | Rural Areas | | |
|---|---|---|---|---|---|---|
| | Coeffi-cient | Value of 't' | Signifi-cance | Coeffi-cient | Value of 't' | Signifi-cance |
| Constant | 30.18 | 11.49 | .00 | 22.73 | 13.12 | .00 |
| Age of head | -.06 | -.50 | .62 | 5.95E-02 | .82 | .42 |
| Age of head square | .00 | .30 | .77 | -8.3E-04 | -1.10 | .27 |
| Workers education | -.86 | -4.69 | .00 | -.76 | -5.15 | .00 |
| Workers sex dummy (female=0, male = 1) | 21.69 | 35.27 | .00 | 24.55 | 70.83 | .00 |
| No. of child workers, Age 8-14 | .02 | .04 | .97 | -.5.5E-02 | -.22 | .83 |
| Whether wage employment | 3.30 | 4.95 | .00 | 1.72 | 4.74 | .00 |
| Whether employee | 2.95 | 4.79 | .00 | 1.96 | 3.45 | .00 |
| Formal dummy | .51 | .89 | .37 | 1.14 | 2.37 | .02 |
| Manufacturing | 2.27 | 5.52 | .00 | .85 | 2.33 | .02 |
| Construction | 3.13 | 4.40 | .00 | -.82 | -1.18 | .24 |
| Trade | 2.44 | 5.73 | .00 | 1.09 | 2.99 | .00 |
| Transport | 2.54 | 4.74 | .00 | .71 | 1.46 | .15 |
| Others | 3.06 | 1.55 | .12 | -.20 | -.08 | .93 |
| Service | 2.25 | 5.02 | .00 | .37 | .81 | .42 |
| No. of Male + Female workers (15+) | -2.82 | -9.90 | .00 | -1.18 | -7.64 | .00 |
| No. of Non-workers | .32 | 2.03 | .04 | .30 | 2.92 | .00 |
| Ratio of female worker | 7.27 | 6.42 | .00 | 8.14 | 10.12 | .00 |
| Whether employer | -7.36 | -1.25 | .21 | -12.78 | -3.88 | .00 |
| Land ownership | .00 | .13 | .90 | -4.4E-04 | -.56 | .58 |
| Whether receive remittance from abroad | -1.48 | -.64 | .52 | -1.21 | -.86 | .39 |
| Shop/trade dummy | -.44 | -.59 | .56 | -1.90 | -2.99 | .00 |
| Rickshaw/Van dummy | .40 | .40 | .69 | -1.19 | -1.56 | .12 |
| Motor cycle/Auto Taxi dummy | 3.45 | 1.13 | .26 | -3.48 | -.88 | .38 |
| Taxi/Bus dummy | 2.29 | .30 | .77 | - | - | - |
| Cycle/Sewing machine etc. dummy | -2.76 | -3.21 | .00 | 1.11 | 2.37 | .02 |
| Value of F | 76.06 | | .00 | 248.20 | | .00 |
| Adjusted R-Square | 0.36 | | | 0.47 | | |
| Sample size | 3355 | | | 6666 | | |

**Source:** Estimated from LFS 2000 data.

# CHAPTER 5

## WAGE INEQUALITY: TRENDS AND DETERMINANTS

The discussion of wage inequality will consist of two components: first, the sectoral differences and second, the individual wage variations. The usual notion is that modern sectors represented by secondary and tertiary activities have a higher productivity than the primary sector and therefore pay higher wages. In contrast, in a situation of widespread poverty, the informal labour market expands and informal enterprises in the secondary and tertiary sectors generate low paid wage employment. These issues will be discussed in sections 5.1 and 5.2. Section 5.3 will examine the changes of real wages in different sectors during the last decade or so. Section 5.4 highlights the wage inequality between urban and rural areas. Indepth analysis of gender differential of wage will be presented in chapter 7.

### 5.1 Wage Difference among Sectors

Data on wage rates by sector are shown in Table 5.1. Wage difference between agriculture and other sectors is large. Among the non-agricultural sectors, certain types of service (education) show a higher daily wage. Banking and insurance has the highest wage. However, the weight of these activities in total employment is low.

Female wage is much lower than male wage. This is true for each and every sector.[13] Female wage like male

[13] A general discussion of gender dimensions of wage difference can be found in Rahman (2003b).

wage is the highest in education services. The difference between male and female wage rates is the largest in "mining and quarrying," followed by manufacturing.

Wage is the highest in the service sectors requiring more education. In this sector hourly wage may be higher not because of basic features of the sector but because it involves returns to education.

## 5.2 Determinants of Wage Variation: Results of Multiple Regression

Regression equations have been estimated to examine the impact of personal endowment and the sector of employment on the wage received by an individual. The (Table 5.2) equations give expected results and bear out the conventional hypotheses.

In the urban area, manufacturing sector is the omitted variable with other sector dummies in the equation. The coefficients of agriculture, construction and transport are not significant. Only "professional service" has a positive and significant coefficient. "Trade" sector has a significant negative coefficient. The results are similar for rural areas: "trade" having a negative coefficient and professional services a positive coefficient, both are significant. A noteworthy feature is that rural manufacturing has a negative coefficient.

Worker's age and square of it have positive and negative coefficients respectively, as expected in earnings functions. The coefficients are significant and the sizes of the coefficients in the urban and rural areas are close. Years of education and skill dummy, the two human capital variables, have the expected positive coefficients which are highly significant. The sizes of the coefficients are much larger for urban workers, indicating a higher return to human capital in urban jobs. As shown in the

previous chapter, unemployment plus underemployment rate is low in the urban areas, which exerts an upward pressure on wage.

Landownership has positive and significant coefficients in both rural and urban areas (significant at .04 and .06 probability levels). The positive impact of this variable possibly works through better bargaining power resulting from larger landownership.

Regular employment has a significant positive coefficient in both urban and rural locations. It will, therefore, be a great privilege to be in this category as it was also found to give significantly higher hours of employment.

## 5.3 Trends of Real Wage in Agriculture and Industry

Wage employment has been found to be associated with a higher probability of poverty. Real wage trends may, therefore, be considered as indicators of poverty trends. Rising investment rate and GDP growth rate during the last few years are expected to accelerate the growth of real wage. Even if a large part of the growth of labour use is in the form of self-employment, a reduction of male underemployment rates to 8 and 5 per cent respectively in rural and urban areas is likely to be reflected in a growth of real wage. Before this period, there has been a decline of underemployment rate, but at a slower pace. Moreover, with an un/under-employment rate above 10 per cent, the demand shifts may not have sufficient pressure on wage, which was the case until the middle of the last decade.

In the discussion of wage trends, two questions should receive attention. One is the comparison of the trends in the major sectors. The second question is about the changes of real wage in agriculture. Interest in

real wage in agriculture lies in the fact that the highest poverty incidence is observed among workers engaged as wage labourer in agriculture. Agricultural wage will also give an idea about changes of real wage in rural non-farm sectors for which time series data is not available. Studies have found strong linkage between wage rates in agriculture and RNA (WB 2004).[14]

In the estimation of real wage a controversial question is which deflator should be used for conversion of nominal wage into real wage. For converting wage rates of urban sectors, a separate CPI for urban industrial sector has been produced by the BBS.[15] There is no separate CPI for rural wage labourers. Therefore, the industrial workers CPI have been used as the conversion factor for wage in other sectors.

To add to the methodological complexity, an alternative price index has been used by some studies. This has been obtained from the Household Income Expenditure Survey (HIES) data (Salmon 2001). The criticisms against the use of HIES prices are many. These prices are based on all rural households and in this respect it is not specific to the wage labourers. Moreover, the HIES prices are actually by-products of expenditure data (actual data pertain to quantity consumed and total expenditure). Moreover, expenditures on many items are

[14] It should, however, be recognised that a rise of real wage in agriculture may overestimate the expected improvement of poverty incidence because only a part of income of the relevant group comes from wage employment and most of them do not get year round employment in agriculture and engage in other activities with low productivity.

[15] BBS tables on real wage indices are produced only for urban sectors (BBS, various years). This may be due to a lack of decision about the conversion factor for agricultural wage. This must be resolved for presenting comparable real wage indices for agriculture. Trends of real wage indices of BBS, shown in Table 5.6, are based on 1969-70 as the base year. The base should be changed to a more recent date. With an old base year, the indices are high, the annual changes are small and therefore comparisons over short periods may be misleading.

imputed values for family produced goods. It is unlikely that the respondents will use uniform retail market prices as conversion factors. Thus, the logic behind the preference of these prices is rather unclear.

Using various CPI, Salmon (2001) presents wage indices in agriculture using a number of cut-off points. In Salmon's study, a comparison of 1996 with 2000 shows a rise in real wage indices of agriculture although this is due to the increase in wage only in the year 2000 (as shown in a figure in the study). The year 1996 was a year with one of the lowest real wage rates, and therefore a comparison between 1996 and later years or previous years will give a misleading picture.

A study by Sen and Hulme (2004) uses various types of CPI to estimate real wage trends. Table 5.3 presents the annual growth rates of real wage from data presented by Sen and Hulme. Annual growth rate from the Sen and Hulme's real wage index gives a discernible decline in the rate of growth of real wage rate during the sub-periods, including the most recent sub-periods. The results are difficult to interpret because they have used a combination of BBS-CPI and HIES-CPI in the same table.

To answer the two questions posed at the beginning of this section, the present study calculates a set of wage indices. For better comparability among sectors, real wage indices for all sectors have been calculated on the basis of industrial workers CPI (part 'b' in Table 5.4).

The real wage index in agriculture and non-agriculture presented in part (b) of Table 5.4 reveals that movement of real wage in the major sectors shows contrasting features. Real wage improvement has been much slower in agriculture compared to manufacturing. During 1991-97, real wage index has risen by 13 and 16

percentage points respectively in agriculture and manufacturing. During the following seven years (1997-2004), the changes in real wage indices in the two sectors were 14 and 45 percentage points respectively. Construction sector, in contrast, shows only four points rise in real wage index during the early 1990s (1991-1997) and registered a 15 percentage point rise during 1997-2004 which is almost the same as the change of the index in agriculture.

In addition to the long-term features, there have been considerable fluctuations of real wage, especially in agriculture. Sudden shocks like flood and drought specially affect agricultural wage. For example, wage indices in the late 1990s show that flood of 1998 had a negative impact on wage in both agriculture and manufacturing. Pre-flood real wage index was reached or exceeded again in 1999-2000.

The differences in the change of real wage in agriculture and organised sector imply that the growth of real wage in the latter may not have been entirely due to acceleration of growth of employment. If such acceleration of employment in organised sectors occurred, this could exert a pressure on wage rate of agriculture and other non-formal rural or urban sectors which constitute the source of supply to the formal sectors. Such isolated rise of real wage in manufacturing can take place because of union pressure, government's minimum wage fixation, selection of better quality workers (which may not be captured by usual human capital variables) and employers' judgment about wage-efficiency relationship, resulting in payment above the real opportunity cost of labour.

The discrepancy between various sources of data and deflators and the conclusions obtained on the basis of

these data highlights the need for further research on the trends of real wage indices in general and agricultural real wage in particular. Methodology of wage data collection and source of data reported by various publications of BBS should be reviewed to generate better quality data.

## 5.4 Rural-urban Wage Inequality

The positive feature of the labour market reflected in the rise of real wage (Table 5.4) hides substantial inequality of wage. Wage inequality by location (rural-urban), sector and sex can have important implications for income inequality. This is particularly important in the context of growing income inequality in Bangladesh as revealed by the Household Income Expenditure Surveys. Inequality of wage will affect the pace of poverty reduction. The presence of artificial wage hike in some sectors may have an impact on other sectors, leading to slowdown of the pace of employment generation and GDP growth. Urban-rural wage difference will have implications for mobility of labour force and for programmes of provision of urban services. This section therefore examines wage differential between rural and urban areas. Wage differential between male and female workers will be discussed in chapter 7.

We shall compare the wage differences between urban and rural areas on the aggregate and separately for each sector. These data are available from the latest two rounds of LFS. Sectoral wage data is available from a number of other sources. But these sources do not provide a rural-urban breakdown.[16]

Table 5.5 shows rural-urban wage differential and the ratio of urban to rural wage. At the aggregate level,

[16] Most studies on rural non-farm activities do not examine wage differences between RNF sub-sectors. Kam et al. 2004 show that RNF raises family income, while WB 2004 shows that RNF wages vary closely with agricultural wage rates.

rural-urban difference in wage is large. Urban wage was 1.58 times of rural wage in 1999-2000. The ratio of urban and rural cost of living was 1.25 as reflected in the poverty lines and therefore a correction for cost of living difference does not bring a balance between rural and urban wages.[17] Urban-rural difference in wage has not gone through a major change during recent years. In 2002-2003, the ratio was 1.61.

Average wage and its inequality has been influenced by the size of labour force dependent on various sectors within urban and rural areas. In the rural areas, the largest labour absorbing sector is agriculture, and agriculture's wage affects the rural wage rate much more than the urban wage rate. Therefore, lower agricultural wage has the highest contribution to rural-urban wage difference.

Table 5.5 also provides a comparison of urban and rural wages of various sectors. The ratios shown in Table 5.5 are reflections of high rural-urban inequality in almost all sectors. These are larger than the common perceptions. The ratios are the lowest in construction and trade sectors. For other major sectors, rural wages are 70 to 88 per cent of urban wage rates. The question of rural and urban wage difference is, therefore, not merely a question of difference between the wages in agriculture and other sectors. Wage differences between rural and urban areas were pronounced within all other sectors. In the major non-agricultural sectors the wage difference was larger in the year 1999-2000 (Table 5.5). The urban-rural wage ratio for agriculture was only 1.11, while in manufacturing it was 1.38 and in trade it was 1.30.

[17] Ratio of prices of essential items (e.g. medium quality rice, saree, etc.) reveals a smaller difference in price levels between urban and rural areas.

Wage differences among sectors prevail within both rural and urban areas. Manufacturing wage in the urban areas is less than urban transport and services sector wage rates. Wage rates in all non-agriculture sectors are higher than agricultural wage rates in both urban and rural areas. This is partly a reflection of the difference in the nature of work: some of the non-agriculture (e.g. transport) sectors are much more intensive of physical efforts and in some sectors human capital endowments are higher (e.g. financial services).

Wage data from the 2002-03 LFS, however, give a slightly different picture of intersectoral wage difference compared to the earlier LFS. In the latest year wage in rural manufacturing sector has been much higher than agricultural wage. The difference in the ratio reflects a sum of two forces: in 2002-2003 there has been a decline of agricultural wage and an increase of manufacturing wage. These changes are to some extent due to the seasonal pattern of data in the 2002-03 survey. The changes are also associated with the overall deceleration of agricultural wages which, in turn, reflect deceleration of GDP growth in the sector during the inter LFS period. A decline of the ratio of agricultural to non-agricultural wage is likely to adversely affect rural-urban income inequality.

Moreover, inequality of income will possibly be much higher than the inequality of wage because farm employment is seasonal in nature and underemployment rate is higher among those working in agriculture. As shown in section 5.2, skill and education have large positive impacts on wage and the impact is higher in the urban areas. This difference indicates that the nature of economic growth in rural and urban areas is different. Rural sectors do not create opportunities of quality employment for educated workforce and therefore wage

is lower. Earnings function estimated (Rahman 2005) for the national sample and with rural dummy as an explanatory variable has produced a significant negative coefficient. Thus, rural-urban wage differential persists even after controlling for human capital and other relevant factors.

## 5.5 Major Conclusions

- Gender gap in wage rate is large and widespread across sectors.
- Those in wage employment face higher chances of being poor and this is due to two forces. First, most of the wage earners are employed in agriculture where wage is the lowest and second, average wage is much lower than the average returns to self-employment in any activity.
- Rural-urban wage differential is large. Inequality of wage among sectors prevails within rural and urban areas.
- Agricultural wage is not only lower than manufacturing wage, but it has grown at a slower rate. This has contributed to urban-rural disparity in poverty incidence and to higher poverty incidence among agricultural wage labourers.
- Human capital variables have a positive impact on wage rate, as expected. These variables have much larger impact in the wage equations for urban workers. Therefore, the better educated workers will tend to migrate to urban areas unless productive opportunities are opened up in the rural areas.
- Hours of work and wage per hour of employment are positively associated. Thus, poverty among the

underemployed workers is reinforced by lower wage.

- External shocks like the devastating flood of 1998 can have a significant negative impact on real wage rate, especially in agriculture. The 1998 downturn of real wage was observed in manufacturing and construction as well.

TABLE 5.1

**WAGE BY SEX AND INDUSTRY: 1999-2000**

| Sex and industry | Taka per day | | |
|---|---|---|---|
| | All | Male | Female |
| Total | 61.29 | 65.43 | 38.07 |
| Agriculture, animal and forestry | 56.71 | 60.17 | 32.94 |
| Fishing | 78.50 | 78.50 | - |
| Mining and quarrying | 48.18 | 80.56 | 30.22 |
| Manufacturing | 73.54 | 82.99 | 38.69 |
| Electricity, gas and water supply | 143.86 | 143.86 | - |
| Construction | 81.96 | 85.57 | 43.85 |
| Wholesale & retail trade | 70.86 | 78.65 | 36.56 |
| Hotel and restaurants | 70.03 | 74.46 | 39.00 |
| Transport, storage & comm. services | 81.26 | 83.77 | 35.75 |
| Bank, Insu. & financial intermidi. | 120.11 | 120.11 | - |
| R/estate, Ren, & Bussi. activities | 84.00 | 84.00 | - |
| Public administration | 80.09 | 80.09 | - |
| Education | 80.04 | 87.93 | 65.25 |
| Health and social works | 64.55 | 64.56 | - |
| Com., social & personal & others | 70.02 | 82.98 | 59.37 |

**Source:** LFS (2000).

TABLE 5.2

**DETERMINANTS OF WAGE/SALARY PER DAY: RESULTS OF OLS REGRESSION EQUATION (1999-2000)**

| Explanatory variables | Urban | | | Rural | | |
|---|---|---|---|---|---|---|
| | Coeffi-cient | Value of 't' | Signi-ficant | Coeffi-cient | Value of 't' | Signi-ficant |
| Constant | -122.29 | -4.54 | .00 | -122.74 | -9.36 | .00 |
| Workers age | 3.68 | 3.84 | .00 | 3.29 | 5.30 | .00 |
| Square of workers age | -2.69 | -2.11 | .04 | -3.11 | -3.88 | .00 |
| Sex of head | -7.54 | -.96 | .34 | 5.29 | .90 | .37 |
| Workers education | 19.33 | 17.88 | .00 | 13.01 | 13.38 | .00 |
| Education of other workers | -.82 | -1.67 | .09 | .17 | .47 | .64 |
| Workers sex dummy (female=0, male=1) | 30.00 | 5.74 | .00 | 26.87 | 6.29 | .00 |
| Agriculture | -6.48 | -1.37 | .17 | - | - | - |
| Manufacturing | - | - | - | -3.07 | -1.35 | .18 |
| Construction | 1.38 | .15 | .88 | -5.03 | -.75 | .45 |
| Trade | -9.84 | -2.66 | .01 | -9.27 | -2.90 | .00 |
| Transport | 4.07 | .81 | .42 | 5.10 | 1.11 | .27 |
| Other services | 30.12 | 3.85 | .00 | 24.00 | 3.00 | .00 |
| Service (Health, education and Public admin. services) | .98 | .33 | .74 | -1.03 | -.36 | .72 |
| Regular Employee dummy | 55.64 | 2.77 | .01 | 58.91 | 10.56 | .00 |
| Land ownership | 2.41 | 1.91 | .06 | 1.03 | 2.05 | .04 |
| Whether receive remittance from abroad | 6.35 | .48 | .63 | 1.51 | .17 | .87 |
| Skill dummy | 26.36 | 5.71 | .00 | 19.56 | 6.17 | .00 |
| Value of F | 68.64 | | .00 | 62.47 | | .00 |
| Adjusted R square | 0.28 | | | 0.53 | | |
| Sample size | 2738 | | | 892 | | |

**Source:** Estimated from LFS data (1999-2000).

TABLE 5.3

**TRENDS OF REAL AGRICULTURAL WAGE BASED ON POVERTY LINE DEFLATOR, 1983/84 TO 2003: SEN ET AL'S ESTIMATES**

| Year (Col. 1) | Nominal Wage (taka/day) (Col. 2) | Real Wage** 'W' (taka/day) (Col. 3) | Deflator (1983/84=100) (Col. 4) | Per cent per year Rate of growth of 'W' (Col. 5) |
|---|---|---|---|---|
| 1983/84 | 19.58 | 19.58 | 100.00 | |
| 1988/89 | 32.71 | 23.21 | 140.96 | 3.2 |
| 1991 | 41.77 | 23.94 | 174.45 | |
| 1995/96 | 45.58 | 22.62 | 201.46 | 1.4 |
| 2000 | 63.60 | 26.95 | 235.94 | |
| 2001 | 65.13 | 27.19 | 239.53 | 1.3 |
| 2003 | 72.23 | 28.02 | 257.78 | |

**Note:** Daily agricultural cash wages for male labour (without food). ** The series of 1983/84 through 2000 is based on deflator constructed on the basis of poverty line deflator, the rest with rural CPI.

**Source:** Columns 1 to 4 from Sen and Hulme (2004) and Column 5 is author's calculation based on Column 3.

TABLE 5.4

**WAGE RATE INDICES BY SECTOR (BASE: 1969-70=100)**

| Year | a | | | | b | | | |
|---|---|---|---|---|---|---|---|---|
| | Nominal indices | | | | Real wage indices* | | | |
| | General | Manufacturing industry | Construction | Agriculture | General | Manufacturing industry | Construction | Agriculture |
| 1990-1991 | 1482 | 1575 | 1487 | 1321 | 107 | 114 | 107 | 95 |
| 1991-1992 | 1553 | 1641 | 1512 | 1421 | 107 | 113 | 104 | 98 |
| 1992-1993 | 1638 | 1724 | 1579 | 1523 | 113 | 119 | 109 | 105 |
| 1993-1994 | 1709 | 1828 | 1598 | 1593 | 114 | 121 | 106 | 106 |
| 1994-1995 | 1786 | 1947 | 1613 | 1653 | 111 | 121 | 100 | 103 |
| 1995-1996 | 1900 | 2064 | 1754 | 1738 | 114 | 123 | 105 | 104 |
| 1996-1997 | 1989 | 2161 | 1848 | 1804 | 120 | 130 | 111 | 108 |
| 1997-1998 | 2141 | 2395 | 1990 | 1870 | 122 | 137 | 114 | 107 |
| 1998-1999 | 2259 | 2522 | 2163 | 1950 | 118 | 131 | 113 | 102 |
| 1999-2000 | 2390 | 2702 | 2286 | 2037 | 121 | 137 | 116 | 105 |
| 2000-2001 | 2489 | 2832 | 2356 | 2141 | 125 | 142 | 118 | 107 |
| 2001-2002 | 2637 | 3035 | 2444 | 2262 | 130 | 150 | 121 | 112 |
| 2002-2003 | 2926 | 3501 | 2624 | 2443 | 142 | 169 | 127 | 118 |
| 2003-2004 | 3079 | 3705 | 2669 | 2582 | 146 | 175 | 126 | 122 |

**Source**: BBS: (various years), Economic Survey 2001, Monthly Statistical Bulletin (various issues).

**Note:** * Uses industrial workers' CPI.

TABLE 5.5

**WAGE IN URBAN AND RURAL AREAS BY SECTOR: 1999-2000, 2002-03**

| Sector | 1999-2000 | | | 2002-03 | | |
|---|---|---|---|---|---|---|
| | Wage rate (Tk./day) | | Urban / Rural | Wage rate (Tk./day) | | Urban / Rural |
| | Rural | Urban | | Rural | Urban | |
| Agriculture | 55.89 | 62.24 | 1.11 | 67.74 | 52.46 | 1.29 |
| Mining | 36.61 | 99.76 | 2.72 | 138.51 | 118.73 | 1.17 |
| Manufacturing | 58.62 | 81.06 | 1.38 | 90.34 | 75.20 | 1.20 |
| Electricity | 138.10 | 132.45 | 0.96 | 181.46 | - | - |
| Construction | 81.87 | 109.82 | 1.34 | 86.45 | 75.94 | 1.14 |
| Trade | 67.21 | 87.44 | 1.30 | 88.43 | 72.75 | 1.22 |
| Transport & Com | 88.92 | 110.50 | 1.24 | 112.79 | 90.66 | 1.24 |
| Finance & services | 127.54 | 207.81 | 1.63 | 241.18 | 149.08 | 1.65 |
| Comm. & personal services | 89.73 | 111.87 | 1.25 | 139.13 | 98.16 | 1.42 |
| All | 64.22 | 101.52 | 1.58 | 113.60 | 70.39 | 1.61 |

**Source:** BBS (LFS various years).

TABLE 5.6

**DETERMINANTS OF WEEKLY WORKING HOUR OF PAID WORKERS: URBAN AND RURAL**

**Dependent Variable: Worker's Weekly Working Hours**

| Explanatory variables | Urban | | | Rural | | |
|---|---|---|---|---|---|---|
| | Coeffi-cients | Value of 't' | Signifi-cance | Coeffi-cients | Value of 't' | Signifi-cance |
| (Constant) | 47.19 | 25.75 | .00 | 33.69 | 20.17 | .00 |
| Workers age | -6.84 | -.76 | .45 | .30 | 3.70 | .00 |
| Square of workers age | -8.74 | -.07 | .94 | -4.21 | -4.04 | .00 |
| Workers education | -.83 | -7.93 | .00 | -1.03 | -6.02 | .00 |
| Workers sex | 8.01 | 13.86 | .00 | 11.41 | 18.05 | .00 |
| Whether employee | .41 | .72 | .47 | 1.45 | 2.29 | .02 |
| Formal dummy | 1.32 | 2.33 | .02 | 2.00 | 3.11 | .00 |
| Manufacturing | 2.05 | 5.57 | .00 | -.88 | -2.15 | .03 |
| Construction | 2.18 | 3.64 | .00 | -1.47 | -2.11 | .04 |
| Trade | 2.46 | 5.84 | .00 | .31 | .51 | .61 |
| Transport | 1.67 | 3.35 | .00 | 2.33 | 2.92 | .00 |
| Others | .66 | .78 | .44 | -1.91 | -1.08 | .28 |
| Service | -.31 | -.86 | .39 | -1.20 | -2.42 | .02 |
| No. of Male + Female Workers (15+) | -1.37 | -5.14 | .00 | -4.92 | -.23 | .82 |
| No. of Non-workers | 9.23 | .78 | .44 | .12 | .97 | .33 |
| Ratio of female worker | 3.84 | 4.08 | .00 | 3.29 | 3.44 | .00 |
| Land ownership | -2.17 | -1.64 | .10 | 2.03 | .20 | .85 |
| Whether receive remittance from abroad | -1.09 | -.90 | .37 | -1.45 | -.86 | .39 |
| Shop/trade dummy | -2.06 | -2.95 | .00 | -.20 | -.17 | .87 |
| Rickshaw/Van dummy | -4.70 | -2.74 | .01 | -2.08 | -1.56 | .12 |
| Motor cycle/auto Taxi dummy | 6.72 | 4.57 | .00 | -.13 | -.05 | .96 |
| Taxi/Bus dummy | 8.06 | 3.71 | .00 | -10.61 | -1.01 | .31 |
| Cycle/Sewing machine etc dummy | -.78 | -1.19 | .23 | -.73 | -1.02 | .31 |
| Skill dummy | 1.44 | 3.26 | .00 | 3.83 | 8.17 | .00 |
| Value of F | 22.21 | | .00 | 26.12 | | .00 |
| Adjusted R square | 0.12 | | | 0.17 | | |
| Sample size | 3646 | | | 2853 | | |

**Source:** Estimated from LFS 2000 data.

# CHAPTER 6

## SELF-EMPLOYMENT: POTENTIALS AND CONSTRAINTS

A slow growth of wage in agriculture and other non-formal sectors, high poverty incidence among casual workers and slow growth of regular employment in formal sectors (discussed in chapters 4 and 5) imply that non-farm self-employment can offer an alternative strategy for employment growth and poverty reduction. Before concrete policies are adopted for promoting non-farm self-employment activities for poverty alleviation, one must examine whether the labour force from poorer (or poorest) households can depend on such employment to generate sustained income above poverty threshold. There will be barriers to entry and problems along the routes of generating sustained and sufficient earnings. This chapter (and also parts of the subsequent chapter) examines the role of non-farm self-employment, particularly rural non-farm activities (RNF), from the point of view of employment and income generation, especially for the lowest income groups.

### 6.1 Household Level Constraints to Self-employment

A number of constraints or barriers to entry may impede access to non-farm self-employment. Many of these barriers are directly or indirectly related to the initial low income level of households. Most non-farm activities require special skills. For many of the rural non-farm activities such skills are obtained through family tradition. Without a family tradition it may be

difficult to enter into these activities. Even if some non-farm self-employment do not require specific skills, such activities often require numeracy, literacy and management abilities. Poorer households have less access to schooling and skills obtained through formal training.

Important requirements of setting up non-farm enterprises are knowledge of the outside world, such as when and where to buy raw materials, capital equipment and how to market output. Labour force members of the low income households are usually deficient in these ingredients of "psychological" and human capital.

The question of entrepreneurial ability for self-employment is likely to be a more serious problem for younger workers. Young boys and girls (especially those with some education) may prefer paid employment because they do not have sufficient knowledge about the functioning of the methods of business, machineries of formal institutions and the links required for setting up and running a business.

Non-farm self-employment requires access to a minimum amount of family assets. This may require some elaboration. It is commonly believed that many of the rural activities are conducted in small scales without much investment. Yet the entry into self-employment requires ownership of some minimum assets like land and homestead. Such assets may provide storage space, etc. for the small business activities and reduce the need for investment on rent payment. In this context, a permanent house/homestead land may play a critical role. For example, one cannot keep cattle in a slum house which is not secured and strong; owners of rickshaw/auto need a space where it would be parked at night, etc. For processing of food/crops, the homestead area plays an important role. Poor women without such

homestead cause much annoyance to the highway travelers as they use a part of the road for drying paddy (which they process either to consume or sell for a small margin). Moreover, assets also add to a family's economic strength. The latter increases the ability to take risk.

Lack of capital and access to financial services may act as a binding constraint to self-employment. This may be more stringent for activities using purchased inputs. Most poor households do not have access to credit from the commercial banks, either public or private. Microfinance has to some extent catered to the demand for credit among the assetless households. Microcredit (MC) was specifically designed for landless and assetless persons and therefore, those who are in possession of land and capital did not have access to microcredit. But such households neither have access to formal commercial bank credit, given the complexity of the process and strict collateral requirements. This problem is termed as "missing middle" and is currently addressed through special types of loans from the microfinance institutions. But the proper balance of target groups is still to be designed. Moreover, MC as a source of capital may play a limited role because the effective rate of interest charged on MC is usually high. The effective rates usually vary between 20 per cent and 30 per cent per year. Not only the rate of interest is high in an absolute sense, these rates are higher than the costs of commercial credit.[18] Many self-employment activities may not be profitable at those rates of interest. Although studies have shown that returns to labour in some of the MC financed activities are lower than the prevailing wage rate, these are attractive because the activity is pursued

[18] An obvious question is why the rate of interest on MC is high. MC institutions are trying to be self-sustained. They provide small loans and therefore cost per taka disbursed is high.

by underemployed workers whose opportunity cost of labour is low.

Above constraints may reinforce one another and form a cycle of barriers. Poverty tends to be reinforced through constraints to self-employment acting at both individual level and at the regional level.[19] While the removal of structural constraints is a necessary pre-condition, acceleration of the scope of self-employment also requires the development of entrepreneurial ability and investment capacity of individuals.

## 6.2 Choice of Non-farm Self-employment

The following analysis looks at the reasons behind the preference for non-farm self-employment. Most of the research on rural non-farm activities and on the choice between farm activities and non-farm activities focused on the choice of sector and not the status of employment (WB 2004). It must be recognised that the choice of self-employment in non-farm activities is likely to require a different set of personal traits compared to those who choose paid employment in non-farm sector. Therefore, in the present discussion, this difference receives attention.

The analysis is based on logistic regressions, the dependent variable representing "whether head of the household is in non-farm self-employment." Individual and family characteristics are likely to explain the choice of self-employment vs. wage employment. Self-employment is usually organised as family enterprise and the choice may be examined through head of households' employment status. The dependent variables include a person's age, square of age, education of the worker, education of other workers, sex of worker, area dummy

[19] WB (2004) examines the role of regional characteristics.

(urban=1), number of earning members in the household, ratio of female to total number of family earners, family's landownership, whether head of household is male, and whether received remittance money (Table 6.1). While self-employment requires access to finance and non-farm capital, data on these resources are lacking. Two variables representing access to capital have been included in the equations. These are land ownership and remittances receipt.

The explanatory variables have expected signs and significance. Age of a person raises the probability of self-employment (after an interval at the beginning of working life). Education has a positive impact on the probability of self-employment. Land ownership and receipt of remittances have significant positive coefficients in the choice of self-employment.

Involvement in RNF provides livelihood security especially for the poorer households, and supplements their farm employment. In this context, the macro data on the extent of multiple activities can be relevant. The LFS 2000 data show (Table 6.6) that about 12 per cent of the employed labour force are engaged in subsidiary occupation. Only 20 per cent of this group is engaged in non-farm sector.[20] This is higher than the extent of involvement in 1995-96 (when the relevant figure was 9.1 per cent).

This data do not fully capture the extent of secondary activity. Secondary activities are often taken up within

[20] Therefore, the percentage of RNF self-employed among secondary occupation is so small that the analysis of determinants of choice of RNF self-employment should be based on main employment only.

the same sector (e.g. a second non-farm self-enterprise or wage employment).[21]

## 6.3 Determinants of Income from Self-employment

Assessment of self-employment enterprises' performance requires data on returns to labour and capital. To examine the factors contributing to the success of self-employment, income per hour from self-employment is used as the indicator. From the LFS data sets it is difficult to obtain accurate data on income from self-employment. Moreover, hourly returns will also depend on the hours of labour input that goes to an activity. The correspondence of income and employment is again difficult to obtain.

To resolve the problems of data, two alternative estimates of hourly return have been obtained. The first one is only for the head of the households. This has been defined as household's income from self-employment divided by hours of employment of head of household. This may lead to overestimation of hourly returns because some of the other members of a household may contribute labour to this activity. Therefore, a second estimate of hourly returns has been calculated on the basis of households' income from self-employment and all household workers' labour inputs in self-employment.

Multiple regression equations have been estimated to explain hourly returns from self-employment. Two equations have been estimated with the two estimates of returns defined above.

[21] In India, sample surveys containing such detailed classification have been used for policy relevant analysis (Bhalla 2003) which is not possible with LFS data in Bangladesh.

Following discussion is based on the returns for head of the household's labour input only (Table 6.2). The other equation does not generate different conclusions, and has been presented in the appendix (Table A6.1).

Among the personal characteristics, age does not have a significant coefficient. Dummy variable for male member as head of household has a very high value of coefficient and significant at zero per cent level.

Education has a significant positive coefficient. In the annex equation, where all earners income has been averaged, "education of other workers" is also significant.

Family assets have a significant impact on income per hour of self-employment. Land ownership has a positive and significant coefficient in both urban and rural equations. Ownership of shop or trade, auto, taxi or motor cycle and cycle, and sewing machine have a positive impact on self-employment income. When the multiple regressions control for the variations in education and access to assets, the difference of sector of self-employment does not make a significant difference in income per day of work. The coefficients of all sector dummies are insignificant in the rural areas. In the urban areas, the coefficients of construction, trade and all types of services are significant and positive even after controlling for the education of head of household and other workers and the ownership of assets.

Data on daily earnings (of head of households) from self-employment in various sectors, without controlling for other characteristics (as is the case of regression analysis), have been presented in Table 6.3. Data show that the lowest per day earnings are given by manufacturing, followed by transport activities.

## 6.4 Returns to Labour: Self-employment vs Wage Employment

This section presents data on hourly returns from self-employment and hourly wage. Data have been disaggregated by poverty status of households. The objective of the analysis is to examine the inequality between the returns from the two types of employment,[22] and between the returns accruing to households living above and below poverty threshold.

It has been argued that self-employment requires certain qualities not essential for wage employment. Moreover, self-employment involves a risk element. Therefore, it is likely that the return to self-employment will be higher than prevailing wage rates.

Some stark inequality in income from self-employment is revealed by data presented in Table 6.4. Returns to self-employment in rural areas are taka 14.04 and taka 23.18 per hour for poor and non-poor households. Inequality is far larger in urban areas where these returns are taka 12.97 and taka 26.59 respectively. In particular the poor households from rural areas do not benefit to any large extent by engaging in non-agricultural self-employment: hourly wage and returns from self-employment of this group are close: taka 11.6 and taka 12.1 respectively. Returns to self-employment are higher in the case of agriculture and among non-poor households in non-agriculture, especially in the urban areas.

It should, however, be mentioned that earning per hour from wage employment and paid employment may

[22] The comparison of hourly wage and returns from self-employment should be interpreted with caution. It is extremely difficult to impute the returns to all inputs to obtain net returns to labour. Data on net returns from self-employment, given by data from the LFS 2000, have been used in this computation.

not be strictly comparable. Wage workers are usually closely supervised so that they put maximum effort. In contrast, some form of work sharing may take place among the self-employed and unpaid family workers. This may reduce the income per hour from self-employment, reducing the difference between returns from self-employment and wage employment.

## 6.5 Role of Non-farm Self-employment in Generating Income and Employment: Case Studies

From cross sectional analysis of current income level and extent of involvement in non-farm self-employment one cannot, however, draw firm conclusions on the scope of poverty reduction through such employment.[23] The problem arises because of the possibility of reverse causality. In other words, those who are in the RNFA and are above the poverty threshold may have undergone improvements after entering into this activity or they might have started RNFA from higher income levels. Moreover, if non-farm self-employment can raise income, why this is not spreading at an accelerated pace? This question can be resolved only through before – after comparisons and/or through direct queries. In the case studies and FGD sessions (presented in this chapter and following chapters) such direct opinion was sought.

RNF enterprises of low-income and high-income households are usually of different nature. The difference cannot be adequately captured from the picture of average income per household. Data on capital and labour input used in the enterprise can sharpen the

[23] This has been recognised by other recent studies on the role of RNF sector in poverty reduction (WB 2004, Osmani et al. 2003) although a number of studies have highlighted that involvement in non-farm activities raises family income (Kam *et al.* 2004, Sen and Hulme 2004, Hossain 1992).

questions about the linkages between poverty and self-employment.

Data for a number of enterprises from two sectors have been presented in Tables 6.5a and 6.5b. In both tables the first few columns show enterprises at the upper end and the last column provides data on low-income household.[24] The contrasts between the small enterprise and the larger ones are:

- Total capital in the low-income households enterprise is very small.
- Capital-labour ratio is also strikingly different. In the small enterprises, capital labour (family + hired) ratios were taka 4,700 and taka 6,200 per worker compared to taka 85,000 in the largest one.
- Percentage returns to capital from the small enterprises are unusually high, 212 per cent and 562 per cent.
- Returns to capital are high for the larger enterprises as well. These returns (in the range of 60 per cent to 111 per cent) are many times higher than the rate of interest of any bank.
- For the mini enterprises, the monthly earnings per worker are close to or slightly higher than the monthly salary of paid workers in the RNF sector.

These findings raise some questions relevant for policies for pro-poor growth. First, if rate of return to capital is so high, why these enterprises cannot expand? The answer is that other constraints which do not appear in the tables may be binding. Such constraints

[24] The enterprises were selected purposively to represent various sizes. These are located in various parts of Mymensingh districts.

usually operate in the form of shortage of land/house, managerial labour, etc. Another observation is that the poor households' self-employment enterprises are observed to earn as much as full time wage labourers. Then why the unemployed women from poor households cannot engage in self-employment and add to family earnings? These questions have received detailed attention in section 6.6 of this chapter and in chapters 7 and 8.

We present findings from focus group discussions and direct observations of self-employment activities. The objective is to highlight the constraints and prospects of development of non-farm self-employment and to identify factors which contribute to success/ failure of such initiatives. Insights on these questions can be obtained from both successful enterprises and from the views of those who have been unsuccessful. The latter set includes (a) those who did not venture into such activities even if they were willing, and (b) whose enterprises went out of business. The case studies of both types will be presented. In addition, FGD sessions were held in some villages of Gazipur District. Small and marginal landowner households participated in the FGD sessions.

It was observed that the younger wage labourers in the rural areas, especially those form absolutely landless households, do not venture into additional self-employment enterprise. Some of them take MC and purchase cows. Women in the family provide labour for day to day chores of livestock raising. Almost all households owned livestock.

The self-employed among the male labour force provided the details of activities taken up. They are involved in enterprises in sectors like bakery, rice mill,

auto rickshaw, production of miscellaneous food items, grocery, peddling, fishing and fish trading, carpentry, boat transport, and wood trading. The list is quite impressive. The rates of return in most activities are high. As a result, many of the households have moved above the poverty threshold.

Some of these enterprises are housed within the homestead area of the owners. Some of them rent or own shop in the local market. New shops are sprouting and this reflects the growing investment by the self-employed. The overall high pace of complementary economic activities accounts for the successful cycle of increase of income and reinvestment.

Moreover, the villages have good road communication with the district town. Overall density of population is not high. The open yards around homesteads are quite visible. These areas allow grazing of livestock and sometimes provide space for stocking goods (for example, a person buys trees and stacks them before selling wood).

Most of the male labour force demonstrate ingenuity in the choice of combination of activities to maximise family income. For example, about 6-7 persons formed fishing group and the catches were substantial during the rainy season. In the summer season, they work as agricultural labourer. The land around the village is low and no crop is grown during the monsoon when fishing is done. During other periods, a small quantity of fish is available and a few of them combine their catch with additional fish purchased from wholesalers and sell these to local retailers. Paddy processing and rice trading are other major RNF activities in the rural area. Some of the neighbouring districts are known for high productivity of paddy (e.g. Mymensingh) which forms the source of supply and the good road linkage and water

ways connecting with retail markets provide a boost to these activities.

The other question which we probed is whether the scale of operation of the activities could be expanded and better technology could be adopted by the enterprises. Most of the activities can add more working capital if credit with low interest rate is made available. But an overall scaling up may not be feasible. Some of the households who obtained credit in the range of Tk.100,000 to TK.500,000 were not enthusiastic about taking more loans. This reflects that they have reached some sort of limit of expansion. In the case of enterprises requiring space or land area, either own or rented, it may not be possible to add adjacent areas. Going to a new location cannot be done as long as it is a family managed enterprise. Thus, the ideal size of such enterprise and the feasible set of technology depend on whether it is mainly based on family's supply of labour and managerial service. Most enterprises are based on family's resources, at least for managerial purposes. Repair shop, transport, bakery and other food processing enterprises fall under this category. A small number of labour is hired only for some of the heaviest work. The contribution of family labour is much higher even if some hired hands are used.

Given these constraints, enterprises may not opt for bank loans or specialised credit. Even if they take loans, they keep their indebtedness as small as possible or spend for purposes other than the self-employment enterprise. As a result of use of mainly family labour and a close supervision of hired labour, not only labour cost is low, but the efficiency of the resources invested is high with high rates of return.

Thus, the successful non-farm activities can contribute to the growth of income of the self-employed and may help the enterprising group among the poor rise above poverty threshold. The benefits of self-employment in the RNF were derived mainly by the marginal poor and non-poor. These activities flourish in the advanced areas with good infrastructure and access to towns. Therefore, family labour employment in the RNF may not offer a solution to the poorest unskilled workers. RNF is also unlikely to be a solution to the currently worsening unemployment problem among the young labour and unemployment among the female labour in poorer regions. Poor workers will, however, be indirectly benefited from the growth of RNF self-employment. With rising labour absorption in the RNF overall labour demand will rise, exerting a pressure on farm wage rate. But this effect may not work in poorer regions with less RNF intensity.

## 6.6 Case Studies of Unsuccessful Self-employment Ventures

Usually a certain per cent of business enterprises turn out to be unsuccessful. This may happen in both the formal and informal sectors. This section presents examples of such enterprises along with insights into the causes of lack of success. It should be mentioned that it was difficult to collect such case studies because one cannot “see” them like the successful ones. An intensive search was required to find these cases.

Box 6.1

**Case Studies of Unsuccessful Enterprises**

*Gold Smith*

M.A. Hashem is 38, studied upto class three. He is currently married with three children. He started his gold ornament shop 12 years ago. Before that he worked for a few years as an "assistant" in such a shop and learnt the job. He also served as a wage labourer in a factory and saved a part of his income which he invested in the shop. He earned taka 200 (or possibly more) per day from the shop. Recently the shop has been closed after a theft. In that incident he lost goods worth thirty thousand taka. Now he hardly has any money for restarting the shop.

*Grocery Shop*

A. Hossain, age 42, has no education. He owned a grocery shop. His daily net earning from the shop was taka 200. His business failed after he had withdrawn a large amount of capital from the shop and spent that money in celebrating the wedding of his eldest son. Now he regrets and says that it was my own fault. At present he is engaged in rickshaw pulling, an activity which is the last resort for physically fit adult male workers but cannot be sustained for many years.

*Screen Printing*

M. Alamgir worked in a shop where he learnt the skills of making rubber stamp and other items using screen printing technique. Then he established his own shop. He rented a shop in a formal market place. The shop was government's property. The building was old and was demolished. A new building was constructed. Shops were leased out to those who could give advances ranging from taka 60,000 to taka 80,000. Since he could not make advance payment, he would be charged a higher rent. He thought that it will be unviable and gave up the idea.

*Vegetable Retailing*

Nazma Begum used to work as a maid servant. Her husband was a rickshaw puller. She did not like her work. So she saved a small amount of money and started retail selling of vegetable. She sits on the footpath adjacent to a vegetable market. So she does not pay any rent. She started with a capital of taka 500 which came from her own saving. She was in business for a few years and supplemented her husband's earnings. She was unable to give enough time to the job because she had to do all household chores. Still she continued. Recently her husband fell sick. She had to spend a few thousand taka for his treatment. This meant that the capital of her business was spent. She is now in search of capital to restart business. Moreover, if she is absent for a prolonged period, her "spot" on the footpath will be taken by others.

*Poultry Raising*

Malek is a 25-year old-young person and passed HSC in 1999. He lives in a village close to district town of Mymensingh. He tried to run a poultry farm. His father supplied the capital. But within a year he lost his capital. Due to lack of experience and skill most of the flock died. The rest were sold at a low price. Total loss was about taka 60,000. He did not restart the farm. He is trying to set up other business with "dry goods."

The case studies demonstrate that diverse types of factors are responsible for failure of the micro enterprises. The factors include:

- Loss of capital due to large family spending on sons wedding and on housband's medical treatment
- Loss of capital due to theft
- Lack of access to shop space or high rent
- Lack of skills.

The vulnerability of the enterprises is usually linked to unforeseen risks which damage capital asset. Health risk of household members and theft have been described. The other major risk factor, not included in the case studies, involves loss of asset due to natural calamity. Death of livestock or poultry is also a serious threat.

Change in technology may reduce the prospects of some activities. For example, recently a bridge has been built on the local river *Chilai*, which made road transport easier. The boatman who provided ferry service has lost earnings. He has much less work these days.

To address the question of loss of capital due to various misfortune or natural calamity, micro-insurance may be considered as an option. It is difficult to bring the failed cases back to business. Therefore, steps may be taken to help them when the "trouble" begins. But the important question is, what types of organisation will be in a position to provide such support?

## 6.7 Major Findings

- In this chapter the poverty related factors which influence the prospects of self-employment, both in terms of entry and income levels generated by

such activities, have been highlighted. The differentiation of RNF activities into dynamic and high productivity sectors versus lagging and marginal activities is well known. Poorer households usually engage in the marginal and less dynamic ones. Poor households' lack of access to human capital and physical capital are at the roots of such disparity. Such disadvantages also act as barriers to entry into self-employment. Lack of access to financial capital acts as an important barrier, especially for the near landless who neither qualify for MC nor for commercial bank credit.

- If one considers returns to capital as an indicator of efficiency, then many miniscule activities will top the list. But given the very small size of capital, income generated by such activities may not be above the poverty cut-off level. The monthly income from such enterprises are close to salaries of hired workers in larger enterprises in the village.
- Adverse initial conditions increase the risks of business and the repercussions following from incidents of crisis, insecurity and general failures or downswing of business.
- Social forces sometimes act as causes of enterprise failure. Capital consumption, large expenditure on social ceremonies, etc. often result from social pressure.
- Success of self-employment also depends on the overall economic environment in an area, the infrastructural facility and closeness to cities.

- RNF self-employment can be an important mechanism for improvement of income of those closer to the poverty threshold. Such activities may provide subsidiary sources of employment for the family members who would otherwise remain outside the labour force.
- Most self-employment activities at the lower end generate employment for only family members and cannot generate demand for hired labour. Therefore, RNF self-employment cannot be a substitute for a hired labour based growth of secondary and tertiary sectors, which may help generate employment for the poorest who cannot set up their own enterprises.
- Income from self-employment is higher in construction and trade compared to agriculture and manufacturing. Returns are lower in the rural areas. Education has a positive impact on such income and the impact is higher in the urban areas.

TABLE 6.1

**WHETHER ONE IS ENGAGED IN NON-FARM SELF-EMPLOYMENT: RESULTS OF LOGISTIC REGRESSION**

| Explanatory variables | Coefficient | Significance |
|---|---|---|
| Age | -.03 | .24 |
| Age square | .01 | .14 |
| Education of head | .24 | .00 |
| Education of other workers | .08 | .00 |
| Sex dummy (male = 1) | .71 | .00 |
| Area dummy (urban = 1) | -.41 | .00 |
| Number of family workers | -.21 | .02 |
| Ratio of female workers | -.02 | .92 |
| Land owned | .00 | .03 |
| Whether receive remittance | .24 | .52 |
| Constant | 1.65 | .01 |
| -2 log Likelihood | 3166.9 | .00 |
| Nagelkerke adjusted R square | 0.07 | |

**Source:** Estimated from LFS 2000 data.

TABLE 6.2

**DETERMINANTS OF INCOME FROM SELF-EMPLOYMENT: RESULTS OF OLS REGRESSION**

**Dependent Variable: Daily Income from Self-employment of Household Head**

| Explanatory variables | Urban | | | Rural | | |
|---|---|---|---|---|---|---|
| | Coeffi-cients | Value of 't' | Signifi-cance | Coeffi-cients | Value of 't' | Signifi-cance |
| (Constant) | -127.08 | -2.28 | .02 | -19.81 | -1.07 | .28 |
| Age of head | 2.79 | 1.20 | .23 | 1.24 | 1.77 | .08 |
| Age of head square | -2.49 | -.96 | .34 | -1.24 | -1.72 | .09 |
| Education of head | 33.91 | 14.55 | .00 | 5.72 | 5.04 | .00 |
| Education of other workers | -2.50 | -1.72 | .09 | .12 | .20 | .84 |
| Sex of head | 34.85 | 1.37 | .17 | 33.87 | 3.80 | .00 |
| Manufacturing | -4.59 | -.57 | .57 | -5.47 | -1.43 | .15 |
| Construction | 56.75 | 3.29 | .00 | 9.77 | 1.19 | .23 |
| Trade | 12.63 | 1.92 | .06 | 4.16 | 1.41 | .16 |
| Transport | -4.61 | -.48 | .63 | -2.21 | -.47 | .64 |
| Others | 51.68 | 2.09 | .04 | 3.12 | .18 | .86 |
| Service | 37.90 | 4.58 | .00 | -5.62 | -1.43 | .15 |
| No. of self-employed/ unpaid family members | 16.32 | 2.43 | .02 | 7.76 | 3.64 | .00 |
| No. of Non-workers | 14.84 | 5.90 | .00 | 7.55 | 8.36 | .00 |
| Ratio of female worker | -9.20 | -.49 | .63 | -1.18 | -.16 | .87 |
| Land ownership | 4.11 | 2.53 | .01 | .13 | 24.89 | .00 |
| Whether receive remittance from abroad | 37.29 | 1.57 | .12 | 8.07 | .95 | .34 |
| Shop/trade dummy | 18.55 | 2.03 | .04 | 20.06 | 4.45 | .00 |
| Rickshaw/Van dummy | 13.36 | .84 | .40 | -1.09 | -.18 | .86 |
| Motor cycle/auto Taxi dummy | 293.24 | 9.66 | .00 | 64.38 | 4.35 | .00 |
| Taxi/Bus dummy | 141.14 | 3.06 | .00 | 31.04 | .59 | .56 |
| Cycle/Sewing machine, etc dummy | .60 | .05 | .96 | 14.52 | 3.91 | .00 |
| Value of F | 33.40 | | .00 | 57.33 | | .00 |
| Adjusted R square | 0.24 | | | 0.30 | | |
| Sample size | 2161 | | | 2791 | | |

**Source:** Estimated from LFS 2000 data.

TABLE 6.3

**INCOME PER DAY OF SELF-EMPLOYMENT BY SECTOR**

| Sector | Income (taka/day) |
|---|---|
| Agriculture | 115.86 |
| Manufacturing | 85.04 |
| Construction | 196.83 |
| Trade | 142.76 |
| Transport | 96.74 |
| Financial service | 251.17 |
| Service | 109.86 |

**Source:** LFS (2000).

TABLE 6.4

**INCOME PER HOUR FROM WAGE AND SELF-EMPLOYMENT OF WORKERS FROM POOR AND NON-POOR HOUSEHOLDS**

| Sector | Area | Poverty status | Income per hour from wage (taka) | Income per hour (taka) from self-employment |
|---|---|---|---|---|
| Agri sector | Rural | Poor | 8.26 | 15.61 |
| | | Non-poor | 8.63 | 24.11 |
| | | Total | 8.29 | 19.28 |
| | Urban | Poor | 9.91 | 16.23 |
| | | Non-poor | 9.82 | 28.60 |
| | | Total | 9.89 | 22.41 |
| Non-agri-sector | Rural | Poor | 11.59 | 12.14 |
| | | Non-poor | 12.24 | 21.85 |
| | | Total | 11.72 | 16.01 |
| | Urban | Poor | 11.70 | 12.39 |
| | | Non-poor | 12.97 | 26.32 |
| | | Total | 12.21 | 20.29 |
| Total | Rural | Poor | 8.45 | 14.04 |
| | | Non-poor | 9.52 | 23.18 |
| | | Total | 8.85 | 17.87 |
| | Urban | Poor | 11.09 | 12.97 |
| | | Non-poor | 12.39 | 26.59 |
| | | Total | 11.56 | 20.57 |

**Source:** Rahman and Islam (2003).

TABLE 6.5A

**CASE STUDIES OF POULTRY FARMS**

| Inputs/Return | | Poultry Farm high-income Case 1 | Poultry Farm high-income Case 2 | Poultry Farm low-income Case 3 |
|---|---|---|---|---|
| Family labour | Male | 0 | 1 | 1* (half time) |
| | Female | 1 | 1 | 1 |
| Hired labour | Male | 2 | 0 | 0 |
| | Female | 5 | 0 | 0 |
| Salary per month per labour | | 1166 | 0 | 0 |
| Fixed capital (taka) | | 400000 | 60000 | 3000 |
| Working capital (taka) | | 280000 | 80000 | 8400 |
| Land used in the enterprise | | 12.5dec. | 5 dec. | 0.25 dec. |
| Total land owned | | 1938dec. | 10 dec. | 17 dec. |
| Monthly income of the owner of the enterprise | | 40000 | 7000 | 2010 |
| Return per hour (taka) | | 160 | 14.0 | 6.0 |
| Return as % of capital | | 713 | 60 | 212 |
| Source of capital | | BRAC | BISIC | Own |
| Women's participation as labour (%) | | 78 | 50 | 50 |
| Capital per labour (taka) | | 85000 | 70000 | 6200 |

**Source:** Case studies conducted for the present study, Mymensing District, March-April 2004.

TABLE 6.5B

**CASE STUDIES OF RICE MILLS AND PADDY PROCESSING**

| Inputs/Return | | Rice Mill Non-poor owner Case 1 | Rice Mill Non-poor owner Case 2 | Rice Mill Non-poor owner Case 3 | Paddy processing Poor Case 4 |
|---|---|---|---|---|---|
| Family labour | Male | 6 | 1 | 2 | 1 |
| | Female | 0 | 1 | 0 | 1 |
| Hired labour | Male | 16 | 14 | 1 | 0 |
| | Female | 4 | 3 | 0 | 0 |
| Salary per month per labour | | 500 | 1500 | 1600 | 0 |
| Fixed capital (taka) | | 250000 | 500000 | 30000 | 700 |
| Working capital (taka) | | 400000 | 50000 | 30000 | 4000 |
| Land used in the enterprise | | 50 dec. | 25 dec. | 30 dec. | 1.5 dec. |
| Total land owned | | 180 dec. | 102 dec. | 490 dec. | 3 dec. |
| Monthly income from the enterprise (taka) | | 60000 | 40000 | 5500 | 2200 |
| Return per hour (taka) | | 40 | 80 | 40 | 6 |
| Return as % of capital | | 111 | 87 | 110 | 562 |
| Source of capital | | Krishi Bank | Krishi Bank | Sonali Bank | Own |
| Women's participation as labour (%) | | 15.38 | 21.05 | 0 | 50 |
| Capital per labour (taka) | | 25000 | 29000 | 20000 | 4700 |

**Source:** Case studies conducted for the present study, Mymensing District, April-June 2004.

TABLE 6.6

**EMPLOYED PERSONS BY SUBSIDIARY OCCUPATION, SEX AND RESIDENCE**

| Occupation | 1999-2000 | | | 1995-96 | | |
|---|---|---|---|---|---|---|
| | Both sex | Male | Female | Both sex | Male | Female |
| Total | 38979 | 31087 | 7891 | 34788 | 29819 | 4969 |
| No subsidiary occupation | 34301 | 27082 | 7220 | 31631 | 26778 | 4853 |
| Subsidiary occupation Total | 4677 | 4007 | 672 | 3157 | 3040 | 117 |
| Prof. technical | 59 | 57 | 1 | 912 | 857 | 55 |
| Admn. managerial | 11 | 5 | 5 | 6 | 6 | - |
| Clerical workers | 18 | 13 | 4 | 10 | 10 | - |
| Sales workers | 412 | 392 | 20 | 519 | 513 | 7 |
| Service workers | 5 | 5 | 0 | 18 | 10 | 8 |
| Agriculture | 3732 | 3181 | 551 | 1461 | 1421 | 40 |
| Fishing | 77 | 77 | 0 | - | - | - |
| Production & tran work & other | 267 | 251 | 16 | 44 | 36 | 8 |
| Not adequately defined | 174 | 100 | 74 | 187 | 187 | - |
| % With subsidiary occupation | 12.0 | 12.9 | 8.5 | 9.1 | 10.2 | 2.4 |

**Source:** LFS (various years).

TABLE 6.7

**DETERMINANTS OF WEEKLY WORKING HOURS OF SELF-EMPLOYED PERSONS: OLS REGRESSION RESULTS FOR RURAL AND URBAN HOUSEHOLDS**

**Dependent Variable: Weekly Working Hours of Self-employed Persons**

| Explanatory variables | Rural | | | Urban | | |
|---|---|---|---|---|---|---|
| | Coeffi-cients | Value of 't' | Signi-ficance | Coeffi-cients | Value of 't' | Signifi-cance |
| (Constant) | 23.66 | 12.86 | .oo | 17.74 | 7.79 | .00 |
| Workers age | .34 | 4.23 | .00 | .62 | 5.77 | .00 |
| Square of workers age | -5.26 | -5.90 | .00 | -8.26 | -6.46 | .00 |
| Workers education | -.56 | -3.42 | .00 | .11 | .80 | .43 |
| Workers sex | 18.97 | 24.65 | .00 | 21.37 | 27.61 | .00 |
| Formal dummy | 1.54 | 2.66 | .01 | 2.12 | 4.27 | .00 |
| Manufacturing | -.69 | -1.38 | .17 | -.25 | -.53 | .59 |
| Construction | 1.70 | 1.75 | .08 | 2.74 | 2.91 | .00 |
| Trade | 1.56 | 3.84 | .00 | 2.27 | 5.89 | .01 |
| Transport | .70 | 1.18 | .24 | 1.51 | 2.80 | .33 |
| Others | 1.85 | .84 | .40 | 1.23 | .97 | .95 |
| Service | -.38 | -.71 | .48 | -2.85 | -.06 | .00 |
| No. of Male + Female Workers (15+) | -.86 | -4.44 | .00 | -1.99 | -6.72 | .08 |
| No. of Non-workers | 8.98 | .71 | .48 | .23 | 1.76 | .00 |
| Ratio of female workers | 4.68 | 4.37 | .00 | 5.49 | 4.97 | .05 |
| Land ownership | -3.51 | -.53 | .60 | -1.89 | -2.01 | .73 |
| Whether receive remittance from abroad | -2.95 | -2.47 | .01 | -.43 | -.34 | .00 |
| Shop/trade dummy | 1.00 | 1.53 | .13 | 1.59 | 2.94 | .60 |
| Rickshaw/Van dummy | 1.95 | 2.15 | .03 | .49 | .52 | .46 |
| Motor cycle/auto Taxi dummy | 3.89 | 1.78 | .08 | -1.28 | -.74 | .17 |
| Taxi/Bus dummy | -7.65 | -1.37 | .17 | 3.29 | 1.38 | .02 |
| Cycle/Sewing machine etc. dummy | -.28 | -.50 | .62 | -1.72 | -2.38 | .00 |
| Skill dummy | 4.89 | 11.10 | .00 | 3.45 | 6.73 | .00 |
| Value of F | 51.69 | | .00 | 65.60 | | |
| Adjusted R square | 0.30 | | | 0.32 | | |
| Sample size | 3053 | | | 3054 | | |

**Source:** Estimated from LFS 2000 data.

TABLE A.6.1

**DETERMINANTS OF INCOME FROM SELF-EMPLOYMENT: RESULTS OF OLS REGRESSION, BASED ON ALL WORKERS OF A HOUSEHOLD**

**Dependent Variable: Hourly income from Self-employment**

| Explanatory variables | Rural | | | Urban | | |
|---|---|---|---|---|---|---|
| | Coeffi-cients | Value of 't' | Signifi-cance | Coeffi-cients | Value of 't' | Signifi-cance |
| (Constant) | 5.39 | 1.22 | .22 | -6.55 | -1.04 | .30 |
| Age of head | .17 | 1.00 | .32 | .55 | 2.13 | .03 |
| Age of head square | -4.56 | -.27 | .79 | -3.97 | -1.48 | .14 |
| Education of head | 1.09 | 3.74 | .00 | 3.14 | 10.38 | .00 |
| Education of other workers | .29 | 2.47 | .01 | -.10 | -.69 | .49 |
| Sex of head | -.42 | -.22 | .83 | .96 | .38 | .70 |
| Manufacturing | -2.93 | -3.35 | .00 | -2.71 | -2.63 | .01 |
| Construction | -2.69 | -1.31 | .19 | 3.97 | 1.87 | .06 |
| Trade | -1.21 | -1.58 | .11 | -.39 | -.46 | .65 |
| Transport | -2.91 | -2.38 | .02 | -3.02 | -2.44 | .02 |
| Others | 2.53 | .54 | .59 | 5.56 | 1.89 | .06 |
| Service | -2.63 | -2.63 | .01 | .97 | .99 | .32 |
| No. of Non-workers | .93 | 4.02 | .00 | .82 | 2.54 | .01 |
| Ratio of female workers | -3.02 | -1.72 | .09 | -3.49 | -1.56 | .12 |
| Land ownership | 1.42 | 10.34 | .00 | 1.06 | 4.71 | .00 |
| Whether receive remittance from abroad | 3.46 | 1.61 | .11 | 4.02 | 1.38 | .17 |
| Shop/trade dummy | 4.48 | 3.75 | .00 | 4.26 | 3.45 | .00 |
| Rickshaw/Van dummy | -1.22 | -.75 | .45 | .41 | .19 | .85 |
| Motor cycle/auto Taxi dummy | 5.97 | 1.50 | .13 | 39.46 | 10.19 | .00 |
| Taxi/Bus dummy | 26.42 | 2.20 | .03 | 17.71 | 3.03 | .00 |
| Cycle/Sewing machine etc. dummy | 2.15 | 2.16 | .03 | -1.91 | -1.16 | .25 |
| Value of F | 17.34 | | .00 | 26.26 | | .00 |
| Adjusted R square | 0.10 | | | 0.16 | | |
| Sample size | 3107 | | | 2580 | | |

**Source:** Estimated from LFS 2000 data.

# CHAPTER 7

## GENDER INEQUITY IN THE LABOUR MARKET AND PROSPECTS OF WOMEN'S EMPLOYMENT

Previous chapters on the changes in the characteristics of the labour force and employment have already shown the presence of significant gender inequality in the labour market. The objective of this chapter is to present more indepth analysis of these issues and to examine the possibilities of poverty reduction through employment generation for women from low income groups. Based on tables presented in chapters 2 through 4, the first section presents some of the major findings on male-female differences in the structure of labour market and the extent of underemployment. The second section highlights the gender related wage differential, especially the factors behind the low wage of female labourers who come from the lowest income strata. The subsequent sections focus on the prospects that the poor and particularly the poorest women improve their situation through employment. Role of rural and urban women's wage and self-employment will be examined in the context of possibilities of poverty reduction.

### 7.1 Male-female Difference in Labour Force Participation, Un/Underemployment and Structure of Employment

#### *7.1.1 Labour Force Participation Rate, Unemployment and Underemployment*

Women's labour force participation rate (LFPR) increased during the 1990s while male LFPR declined slightly. Analysis of marital status of the labour force

shows that unmarried women's share in the labour force declined during recent years. This is likely to impair the process of empowerment of young unmarried women.

During the 1990s unemployment rate and particularly educated (upto SSC level) unemployment rate have risen both among male and female labour force. The rise has been manifold among the women. Such increase reflects that the increase in secondary school enrolment has resulted in the production of unemployable SSC holder women.

Women's disadvantage in the labour market is most glaring when the magnitude of employment and underemployment is considered. Underemployment rate of female is as high as 53 per cent while male underemployment rate is in one digit (7 per cent).[25] Gender inequity is also reflected in the changes of underemployment. The underemployment rate among female increased between 1995-96 and 1999-2000, while the underemployment rate among male declined.

Educational attainments of both the male and female labour force have shown a small improvement during the last decade. The improvement has been smaller for the female labour force. Moreover, the share of literates in the female labour force has declined by 2.5 percentage points.

Only a small proportion of female workers has been categorised as skilled. Percentage of skilled female workers is much smaller than male workers. Poorer women have less access to education and skill

[25] Densely populated countries like Bangladesh are known as surplus labour economies. The proponents of theories of development with surplus labour were not explicit about the gender composition of surplus labour (Lewis 1954, Myrdal 1966). The current unemployment/underemployment rates make it clear that gender difference in surplus labour is glaring.

endowment. But women from this group are more likely to take up paid employment. This implies slow improvement of educational endowment of female labour force.

*7.1.2 Status and Sector of Employment*

Women's employment opportunities are limited to a few sectors. Agriculture, community and personal services and manufacturing account for 96 per cent of the employed women in 2002-2003. Agriculture's share increased over the three rounds of LFS, while the other two sectors' contributions declined. Women's employment in agriculture is mostly in the form of family employment. Self-employment and unpaid family employment accounted for 73 per cent of the employed women in the latest LFS. This share has increased over the last three LFS periods. Over representation of women in unpaid family employment is quite significant and increased during the second half of the 1990s (Tables 4.1 through 4.8 of chapter 4).

Both number and share of women in entrepreneurial/employer status declined during the early 1990s. During the second part of the 1990s the number increased, though the percentage was still lower than that in 1991.

Female labour force experienced a significant extent of casualisation during 1996-2003 period. Within paid work, women's share is larger in the irregular/day labour status compared to regular employee status (Tables 4.1 through 4.8 of chapter 4).

The sectoral distribution of female employment does not adequately reveal women's roles in the supply of labour to the major sectors, especially manufacturing and agriculture. To obtain the complete picture,

women's share in total employment in manufacturing and agriculture and especially paid employment in these sectors should be focused.

Table 7.1 shows that women contributed to 37.9 per cent and 39.3 per cent of employment in the manufacturing sector in 2000 and 2003 respectively. Women's shares of employment in agriculture were 19.1 per cent and 26.3 per cent in these two years. Thus, the major sectors are dependent on female labour to a great extent. This conclusion should be interpreted with caution because underemployment is high among women. Therefore, the contribution of women in terms of labour hours will be much less than the number of persons involved.

Women's contribution to hired employment in these sectors, particularly in manufacturing, is an important indicator of women's contribution to Bangladesh's labour market. Women's share of paid employment in manufacturing has increased, which is a positive feature of the female labour market. However, women's contribution to paid workers in agriculture declined over the period. Women contributed one fifth of paid employment and about one fourth of total employment.

Hours of employment of the male and female labour force in each sector have been shown in Table 4.11. Women's weekly hours of employment were 58.3 per cent and 70.6 per cent of the male labour force's hours in agriculture and manufacturing respectively. The percentages are higher (64.1 per cent and 71.4 per cent) in the year 2003. However, the weekly hours contributed by the male and female workers (Table 4.12) are less unequal among the day labourers and employees, compared to self-employed (the ratios are .79, .84 and .64 respectively).

Since female wage is much lower than male wage, employers are likely to prefer female workers and these shares are likely to increase further. The competitiveness of the growing sectors of the economy will require that they draw upon the female labour force to a larger extent. This has important implications for growth strategies and for development of the female labour force. These issues will be discussed in chapter 9.

## 7.2 Gender Differential of Wage

### *7.2.1 Extent of Gender Differential of Wage*

Wage difference between male and female workers prevails in most developing countries. The ratio of female to male wage rates is expected to rise with economic growth and expansion of employment opportunities for women. The experience of Bangladesh is shown in Table 7.2.

In the urban areas, the ratio of female to male wage increased until 1999-2000. Male-female wage differential is large and the absolute value of the difference increased over time.

Rising ratio of the female to male wage in non-agriculture sectors during the 1990s reflects the expansion of employment opportunities in urban manufacturing, especially in the export-oriented RMG sector. Data presented in chapter 4 show a decline of paid employment opportunities of women during 2001-2003 which stands in contrast with male employment. A decline of wage ratios (female/male) during this period is thus commensurate with the employment scenario.

### *7.2.2 Social and Economic Factors behind Gender Differential of Wage*

Male-female wage differential can be attributed to the following factors: First, the differences in human capital endowment of male and female labour force; second, a differential purely due to gender; and the third one is job segmentation with women's employment being concentrated in the low productive and low wage segments.

In a traditional economy it is difficult to relate wage difference with the productivity difference because most workers are unskilled and the productivity differences may not be captured by human capital variables. Certain types of unskilled work require simple physical strength. Earth cutting, load carrying, etc. are some examples. In these jobs women have a disadvantage and therefore receive a lower wage.

Gender differential of productivity is difficult to estimate even in skilled jobs in the formal sector. For example, how would one measure the difference between productivity of an operator and that of a supervisor in ironing section in a RMG production unit? In RMG enterprises "cutting" is considered a more skilled/ "heavy" work which is done mainly by male workers. But the workers in this section may take a few minutes break now and then because this work is outside the "production line." In contrast, the machine operators working in a "line" cannot take time out and they must perform the boring and tedious work continuously. How can one judge, which is heavier work! However, the workers in the cutting section who are mainly male receive a higher wage.

Pure sex differential of wage resulting from non-economic factors originates in the deeply rooted social,

cultural and institutional factors. Such differentials set in through both direct and indirect routes. Society's perceptions of women's role in the labour market and women's bargaining power play dominant roles in this context.

An important socio-cultural factor behind the lower wage of women is the perception that women are secondary earners. Such a notion prevails among both employers and female employees and as a result lower wage is offered and accepted respectively. The perception that women are secondary earners also influences the institutional wage setting process. Minimum wage suggested for the sub-sectors with a higher share of female workers is usually lower. The RMG sector in Bangladesh is an example in support of such hypothesis. Minimum wage for the RMG sector is lower than other manufacturing industries dominated by male workers.

Male-female wage difference, which is apparently linked with pure gender bias, may, in fact, reflect the lower bargaining power of women. A number of factors operating at both household level and societal level result in lower bargaining power of female workers seeking paid job. For example, families' male guardians (especially from low income groups) sometimes keep a pressure that women accept employment even if the wage is low. Case studies revealed two types of pressure: Women without male earner in the household are required to earn to ensure survival and second, many women have to earn to save for dowry which they will pay to their husband. Many women in the RMG sector mentioned this as an important reason for taking up employment.

## 7.3 Prospects of Self-employment of Rural Women from Low-income Households

At present the dominant mode of rural women's employment is "unpaid family work." The main sectors where they are engaged are livestock raising and crop processing. The latter set of activities is seasonal whereas the first set generates only a small number of hours' work a day. These activities are contingent upon family's resource endowment. Therefore, such employment may not give them an access to income and some of the activities may not be relevant for the landless households' women. The supplementary data collection component of the present study focused on these issues and examined the views of poor women on the preference and prospect of type of employment.

In the FGD sessions,[26] the group of women were asked about who are the poorest among them and why do they not take microcredit and start self-employment. Two of them said they are poor because they do not have husband. They were members of an NGO but did not actually take loan. They became members to avail the savings services for their tiny savings. One of them depended on mainly son's earnings. She also made hand craft items with jute and sold these items to buyers from an NGO. She earned around taka 250 per month from this source.

We asked her why she does not take loan. She replied, "I do not have the courage." Her answer was unexpected because NGO credit comes to the doorstep, no complex forms need to be filled in, no waiting in the

[26] Conducted during the year 2004 in Gazipur district.

offices and money can be repaid in installments.[27] The problem she envisages is about repayment of installments. If she buys a small cow and sells it after a year, she may make a profit of about taka 5,000 to taka 7,000. "Where do I get the money for paying installments?" is her question. Moreover, there are the risks that the cow (or poultry) may die. If an earning husband is there to provide support and money for repaying loan in installments, it works well. Thus, the problem is about finding activities where she can generate instant return and sufficient return to repay the loan. For female workers in a village, there are not many activities with such features. In some villages women take up two types of processing activities: paddy processing and food processing (making puffed rice, preparing "pitha" or sweetmeat, etc.). These activities bring low hourly returns. Moreover, hard physical labour-intensive activities like paddy processing cannot be pursued for long hours a day and therefore these activities cannot generate sufficient income for the survival of a family.

Another woman did not have a male earner in the family. For the last two years she obtained regular wage employment in a road maintenance project. This has come to an end. She does not want to take loan from NGOs. She prefers regular wage employment, even if she has to dig earth and work on the roadside as she had been doing during the last two years.

[27] The NGO is a partner organisation of Palli Karma Sahayak Foundation (PKSF). PKSF and other small and large NGOs have taken up schemes for providing microcredit (PKSF 2002, CDF 2002, Grameen Bank, various years) among poor households of Bangladesh. There have been a large number of studies on impact assessment of MC. Most studies agree that there is an overall positive impact on income, but the rate of improvement is slow and may not be reaped by the poorest households.

Given the above constraints of self-employment, most women and especially the young girls who are required to earn for family's maintenance would prefer any type of regular employment compared to self-employment or casual wage employment. Earning day may be higher in the latter situation. But lower person days of employment will result in lower earnings in these types of employment.

Many of these women and the young school drop out girls show their eagerness to do any work in which they may get a regular salary at a level of lowest market wage that prevails in the casual labour market. It will be unfortunate if there is not sufficient growth of large-scale secondary and tertiary sector activities to absorb such a willing labour force with a low opportunity cost of labour.

FGD sessions with women provided the insights listed in Box 7.1.

From discussion with women it appeared that they do not usually contribute labour to the enterprises taken up by men. Therefore, we discussed the reasons with some of the male owners of various enterprises. Five of them talked to us about how they built their enterprises. Those engaged in rice trading, transport sector work (owns and drives baby taxi), grocery or other trading activities did not see much scope of involving women. Two of these enterprise owners were crossed with a long series of questions on how women may be involved in these activities. These are presented below.

Box 7.1

**Prospects of Self-employment of Rural Women: Observations Based on FGD among Women**

- Women from households with farming activity are seasonally busy with crop processing.
- Women from non-farm households have little scope for contributing labour to the main non-farm activity of households. Exceptions to this are specific occupation groups (e.g. poultry, weaving, etc.) where both men and women are engaged in non-farm activities.
- Depending on availability of grazing land, rural families keep livestock and women spend a few hours a week in the care of livestock. Most women undertaking this activity are underemployed.
- Those above age 20 (and in most cases above 30 years) usually have small children. These women are busy with household chores. Most women with children referred to burden of housework as the major reason for not taking up more economic activities.
- When further probing was done about what type of economic activity they could take up, no specific suggestions came from the women.
- Most rural women, especially those who are currently housewives, are without education/ literacy. Therefore, they do not want to learn new activities or cannot think of undertaking a business. As we talked to them, it became quite apparent that it will be difficult to give them managerial skills.
- Compared to housewives, young unmarried girls have much less burden of domestic work. There are two groups among the younger girls: the school going and school leavers. Both are equally enthusiastic about any prospect of income earning activities. But this group is more interested in regular paid employment. The contrast between the women with children and the young unmarried ones is glaring and makes it clear that all efforts should be made to utilise the latter group in the growing sectors of the economy. In fact, if rural enterprises can create demand for skilled labour, these young women may be easily trained. Some of them showed interest in self-employment and may be provided with a combination of skill training and management training so that they may take up self-employment. The next chapter will provide more details on the young unemployed girls. Here it should be emphasised that lack of employment opportunity will push this group into the situation of the "disinterested" older group, carrying the burden of household chores ("*sangsharer ghani tana*").

Box 7.2

**Case Studies on Women's Lack of Access to Family Employment**

*Women's indoor work for husband's shop*

The grocery shop owner obtained credit from a local NGO. Since the shop is in the market place, his wife cannot do any work for the shop. And there is scope for employment of only one person. The credit officer of the NGO, who was present at the FGD spot, reminded him that he sold snacks at his shop and his wife helped him prepare those and we requested him to give the full account of the activity. He said, oh! it was only during "Ramadan" that I sold snacks in the afternoon where she did some work. Then it was discovered that he continues it and sells snack every afternoon. His wife helps him in preparing the snacks, even though the time spent was small.

*Carpentry is not women's work*

Another person interviewed was a carpenter who was involved in making furniture, doors, etc. He was asked why his wife cannot do some of the work, since this can be done within the homestead area. He was against this because this is man's job and as long as "I am healthy and able to support my family, why should the family's women work with those tools." Then we said, "say if you are sick and cannot work for a few months, then your wife could run the business if you train her." Then he went on with other arguments: she has to take care of children. We tried to persuade him to train a few women in carpentry. But he thought women should find something else.

Case study 1 demonstrates that it is not only a matter of creating employment for women but also recognising what they are doing.

The strong stigma against women's involvement in non-conventional work (or in men's work) became clear as we talked to a male entrepreneur engaged in carpentry (case study 2).

## 7.4 Role of Wage Employment of Rural Women

A search was made in a few villages to examine the prospects of women's full time employment and the activities where wage employment is currently available. This was done through FGD and case studies in two

districts. The first set of villages was in a poor district in the northern region (Gaibandha) and the other set of villages was in the central district of Mymensingh. The latter set was relatively prosperous villages close to the city.

In the former areas winter paddy is the main economic activity. There is hardly any industrial or non-farm activity in the area. Many of the poor male wage labourers of this area migrate to other areas during the months of November, January, February and May. The families are often left behind with inadequate means of survival. Women therefore seek employment and themselves approach the prospective employers begging for work. They engage in field work for agriculture where they get only taka 40 for a day's work. Still, those who get employment consider themselves lucky. Male wage rate in this area was taka 60 during this period (March through April 2004).

In Mymensingh, two sectors dominate as sources of employment for women: these are "rice mills" and domestic service, including paddy processing. In some of the "Char" villages women are employed in agriculture. But only two activities of crop cultivation use hired female labour. Transplanting paddy and picking chilli are these two operations. Chilli is extensively cultivated in these villages and such tedious activity can be done only by women. Women's wage rates in crop activity and in rice mills are almost the same. Women and men receive taka 40 and taka 60 per day respectively. In crop activity, women get two meals (money equivalent of about 24 taka) and men get three meals. In the work in rice mills they do not get meals. In rice mills they get 2 kg of broken rice every day which is again equivalent to taka 24 (12 taka per kg.). Thus, women get taka 64 per

day, and with 30 days' work women's monthly earnings is taka 1,920.

Work at rice mill is a physically demanding task. Those unable or unwilling to take up such job may find work as domestic help in the city area. These women get food and clothing along with a cash payment ranging between taka 100 and taka 300 per month. Total value of cash and food is equivalent to about taka 30-40 per day.

Women who are currently engaged in wage employment or are seeking work were asked about their preference of activity. Most of them prefer employment in non-farm activities to crop employment, mainly because the former gives regular year round employment. Employment in crop activity lasts only for a few weeks a year. Apart from the risks of underemployment, women who seek wage employment did not have a prejudice against working in field activity of crop cultivation. Poor women themselves do not have averseness to any type of employment. Studies have shown that many women engage in earth cutting work when they find such employment (e.g. Rahman 2003b). Employers of brick-kiln need thousands of workers and they employ both men and women. These brick-kilns are located in the peri-urban areas and the poorest women living in close-by areas work there.

The employers were also directly asked why they do not employ women in crop agriculture. They resorted to the argument that women are physically weak, and cannot carry heavy loads of paddy. They cannot do the heavy work of crushing of the bundles of paddy. But why women do not get employment in activities like transplanting or weeding of paddy or other field crops? Then came the question of social acceptability and

employers expressed the view that "women should not work in open fields, if an employer offers such employment, he will be socially condemned," etc. The difference between the "char" areas and the mainland villages to some extent corroborates this view. The customs in the char land are somewhat different and there women are employed in field activities of crop. Specific demand situation may have contributed to the difference. Labour input in tedious activities like chilli can be contributed only by women and children. Since children are unavailable because of the increased school enrolment, women get employment. Char lands grow more "chilli" compared to the other villages. Therefore, the total demand for hired labour and especially female labour is higher.

Summing up the views, it can be said that women are ready to work in any sector, at about 60 per cent of male wage rate but prefer regular employment with assured earnings. Employers care about social stigma and would not hire female workers for field activities of crop cultivation in most villages. But intervillage differences show that with the increase in demand and tightening of the male labour market, social customs and prejudices may give way to economic incentives. Society's preferences, of course, will prevail and this is more stringent when it comes to the question of who is absorbed first. Therefore, an overall growth of employment is required to ensure more employment opportunities of women.

Traditional norms of women's role act as strong forces behind gender-wise segmentation of job market which ultimately leads to high underemployment and low wage of women. Preferences based on gender, which is not commensurate with profitability and efficiency,

would not continue if strong social forces and traditions were not in operation.

An important factor creating job segmentation, especially in the rural areas of Bangladesh, is the relatively greater weight attached to women's domestic activities compared to market activities. These social forces creating gender differentials are based on the age old tradition of patriarchal norm prevailing in most parts of Bangladesh (except in some pockets of tribal areas in north and southeast). The patriarchal practices dictate that adult male members of a household are treated as bread earners and should seek employment before family's women do so. Only if there is a need for supplementing their earnings, the female members of a family would consider participating in economic activities. Domestic work and reproductive role are considered as supreme for women. Thus, women's status is relegated to that of "secondary earners."

An important implication of the traditional attitude is that only limited types of jobs are considered as "women's job." Women are expected to work in locations close to the homestead. This is especially true in the rural areas.[28]

As a result of traditional outlook, rural women are usually engaged in the processing of the crops (rice, jute, lentils, etc.); in contrast, male workers perform field operations. Women perform field operations for crops grown in the vicinity of the homestead. This would enable them to combine the domestic chores with the economic activity and also will be in conformity with employer's social values.

[28] They prefer jobs close to home even in the urban areas because women's access to urban transport system is limited, and therefore transport cost may be very high if the location of job is far from home.

## 7.4 Prospects of Self-employment and Wage Employment of Women from Urban Low-income Groups

From the sectoral distribution of employed women in the urban areas, it is observed that three sectors absorb most of them. These are manufacturing, community and personal services and trading. Within manufacturing RMG is the dominant sector. Domestic service dominates the service sector employment. Self-employment is concentrated in petty trading, handicraft, etc. Both self-employment and wage employment thus include activities concentrated in marginal jobs. Separate estimates of wage rates of many of these subsectors are not available from the LFS or other national sample surveys. Wage rate of unskilled workers of RMG is one of the lowest within the manufacturing sector.

Only a small proportion of urban informal enterprises belong to women. Women in urban informal sector (UIS) are usually petty traders and hawkers engaged in marginal types of business with meager capital. Whereas most informal sector activities are based on unpaid spaces, women use locations which are much inferior to the spaces occupied by men in similar trade. The occupancy of these spaces is vulnerable. Therefore, women's income from self-employment is low as well as uncertain.

Wage employment of women in both formal and informal jobs is associated with low wage rate and poverty. Growth and sustenance of formal sector jobs, especially in the RMG sector, are subject to fluctuation linked with external demand.

The relevant questions about women's employment therefore include the reasons why women take up employment in these low wage sectors and why women's wage rates are low. The earlier sections already

discussed the role of societal attitude and the prevailing patriarchal norms in relegating women to secondary earner status. In the case of urban labour market, not many regular jobs for women are being created. Jobs which would be attractive for male workers would not be left for women. Only those jobs which bring low salary and are unattractive compared to the informal sector self-employment or even casual wage employment are left for women. In addition, jobs which are boring, tedious and require strict discipline may not be acceptable to male workers. This type of job in the RMG sector is accepted by women from low income households.

The wage rates in such employment are so low that a full family cannot be maintained and therefore such jobs are usually left for young and unmarried women. There have been many studies on the impact of low paid wage employment on women's health, consumption pattern and empowerment. Most studies show that these women spend as little as possible on their own consumption and the rest of the money is either handed over to parents/husband or saved for future husband who will receive it as dowry.[29]

So far the discussion has been based on the assumption that certain types of jobs with given wage rates are available in the market and male and female labour force members will share these jobs. While low wages are tagged to certain categories of jobs and availed by women, one would ask why women cannot bargain for higher wage rates. Lower wage rate of women may be due to their lower bargaining power or lower human capital endowment associated with lower productivity of jobs. Studies on reasons of gender differential of wage

[29] Many stories on attempts to buy a husband with the hard earned money have been published (Daily Star Report 2004).

rate (Rahman 1996) show that there are some pure gender based differences of wage rates. Moreover, better paid jobs with higher skill/education requirement are not made available to women.

Section 7.2 has already discussed the reasons why women in the low paid jobs cannot bargain for better wages, because these reasons are applicable to urban women as well. In addition, the lack of formal organisation of female workers needs to be highlighted.

Trade union leaders and women's organisations recognise the need for including women in trade unions and working for their cause although few practical steps were effectively undertaken.

Therefore, there is a need for asking the question, how the women's situation in the wage labour market can be improved. There are two possible routes: women may be assisted to join self-employment and second, there should be various interventions to improve the working condition and terms of employment of women in the lowest rung. The institutional mechanisms for moving in these directions will be discussed in the concluding section. In addition, both for better terms of wage employment and for better returns from self-employment, productivity of female labourers can be raised through training and skill development. Elaborations on these policies are included in the policy chapter. Simultaneously, the long run issues relevant for raising women's overall status in the society should not be forgotten.

## 7.6 Summary of Findings: Gender Dimensions of Labour Market Inequity

- Women's labour force participation rate (LFPR) increased during the 1990s, while male LFPR declined slightly.
- Women's disadvantage in the labour market is most glaring when the magnitude of employment and underemployment is considered. Under-employment rate of women is as high as 53 per cent while male underemployment rate is in one digit (7 per cent). Gender inequity is also reflected in the changes of underemployment. Under-employment rate among women increased between 1995-96 and 1999-2000, while the underemployment rate among men declined.
- Both number and percentage of women in entrepreneurial/employer status declined during the early 1990s. Female labour force experienced a significant extent of casualisation during 1996-2003 period. Within paid work, women's share is larger in the irregular/day labour status com-pared to regular employee status (Tables 4.1 through 4.8 of chapter 4).
- A larger per cent of employed women (compared to men) accept inferior type of employment and earn less. The route to poverty reduction through women's employment will require that the opportunities of women's self-employment and paid employment substantially increase. Self-employment should extend to new activities with higher productivity. Paid employment can help in sustaining poverty reduction among women only if it is in the form of regular employment.

- Employment generation strategies for the poorest women must receive attention because households dependent on women's earnings form the lowest stratum among the poor households.
- Women who are compelled to earn for family's survival are unlikely to be successful entrepreneurs because they hardly possess skills or financial capital. Wage employment is the preferred option among these women.
- Women have low bargaining power and are ready to work at wages much lower than the prevailing male wage rates. Safety net type employment generation through special projects should give priority to this group of women.
- Long-term or even medium-term strategies for poverty reduction should involve growth of economic sectors which create regular employment for women.

TABLE 7.1

**SHARE OF FEMALE LABOUR FORCE IN AGRICULTURE AND MANUFACTURING SECTOR: 1996-2003**

| Year | Sector | Women's share in paid employment (per cent) | Women's share (per cent) in total employment |
|---|---|---|---|
| | Agriculture | 5.6 | 26.3 |
| 2002-03 | Manufacturing | 34.9 | 39.3 |
| | Total | 19.9 | 22.2 |
| | Agriculture | 13.7 | 19.1 |
| 1999-2000 | Manufacturing | 27.5 | 37.9 |
| | Total | 17.1 | 20.2 |
| | Agriculture | - | 14.3 |
| 1995-96 | Manufacturing | - | 35.5 |
| | Total | 18.73 | 18.3 |

**Source:** Calculated from LFS data.

TABLE 7.2

**MALE AND FEMALE WAGE RATES: 1989 TO 2002-03**

| Sector* | Year | Taka per day | | Female wage |
|---|---|---|---|---|
| | | Male | Female | Male wage |
| Agri/Rural | 2002-2003 | 62.0 | 37.0 | .60 |
| Non-agricultural/Urban | | 75.0 | 42.0 | .56 |
| Agri/Rural | 1999-2000 | 63.0 | 35.0 | .55 |
| Non-agricultural/Urban | | 85.0 | 59.0 | .69 |
| Agri/Rural | 1995-1996 | 44.0 | 25.0 | .57 |
| Non-agricultural/ Urban | | 60.0 | 36.0 | .60 |
| Agri/Rural | 1989 | 31.6 | 22.7 | .72 |
| Non-agricultural/ Urban | | 46.0 | 20.9 | .45 |

**Note:** *For 1995-96 and 2002-03, wage rates are given for rural-urban classification. For other years, by agriculture/non-agriculture.

**Source:** BBS: LFS (various years).

# CHAPTER 8

## EDUCATED AND YOUTH LABOUR FORCE

### 8.1 Education and Unemployment

Integration of the youth population into the growing economy requires that they get employment after leaving school. It has already been discussed that a small percentage of the labour force of Bangladesh is educated above class ten. A poor country like Bangladesh cannot afford wastage of educated human resource. Therefore their employment prospects and the question of educated unemployment deserve special attention.

Table 8.1 presents data on educated unemployment. Data show a rising trend of unemployment among educated persons. The increase is larger among girls. There is a contrast in the pattern of unemployment among educated men and women. Unemployment rates among women educated upto class ten and among SSC/HSC holders increased manifold during 1996-2000. In contrast, unemployment rate among male labour force with SSC and HSC level of education has declined. The supply of educated women has substantially increased during this period. This has been made possible through the provision of incentives through scholarship and other measures. Commensurate employment opportunities were not created for educated persons. These two forces together have resulted in a rise of unemployment among the educated youth.

Table 8.2 presents unemployment rates by age groups. It shows high unemployment rate among the young workforce.[30] There is a significant difference in the youth unemployment rate among male and female labour force. Unemployment rate is high among girls aged 15-24, whereas among male labour force the highest unemployment rate was observed among 25-29 years age group (Table 8.2). Between 1995-96 and 1999-2000, unemployment rates among young male labour force declined, while unemployment rates among girls of young age have increased manifold.

*8.1.1 Poverty and Educated Unemployment*

One of the reasons why educated unemployment was not adequately highlighted in connection with poverty reduction policies is the belief that it is a problem relevant for mostly the non-poor sections. The hypothesis remains to be verified with empirical data. Educated unemployment among the poor deserves special attention because there is an opportunity cost of education even if schooling is free.

Table 8.3 presents data on unemployment plus underemployment rates among poor and non-poor with different levels of education. Data show a clear disadvantage of rural educated (above degree level) persons from poor households. SSC and above degree holders among the urban poor households have higher un plus underemployment rate and the disadvantage in this respect is larger in the urban area.

Worse performance of educated persons from poorer group is due to a number of weaknesses of this group. Poor boys and girls, on average, show worse

[30] Educated unemployment rate has been reported to be high in most South Asian countries (Mahbubul Haq, Human Development Centre 2004).

performance in examination results. This, in turn, is due to poorer quality of schools they attend and lack of means to get help from private tutors. In the field of competition for jobs, they fall behind due to poor academic performance. Moreover, they have less acquaintances and links with influential persons who may help in linking with jobs.

## 8.2 Views of Unemployed Youth

Employment prospects of educated youth, especially from poorer households, need special attention because of the special features of their labour supply. They are young, enthusiastic, and inadequately qualified.

FGD sessions and case studies were conducted (during February 2004 to June 2004) among such boys and girls in the 17-22 age range.[31] Discussions centered on the questions of what type of employment (paid employment or self-employment) they sought, the experiences of job search and future plans. Apart from the information, the ways in which they approached the issue, the passionate views about why they cannot find jobs and still more, the determination and desperateness to do some earnings reveals the social wastage of youthful labour force. If appropriately maneuvered, these unemployed persons are capable of providing an elastic supply of hired hands for local industries. The following insights may help in the adoption of short run and long run policies for this group (Case studies have been presented in Boxes 8.1 and 8.2).

[31] Full fledged survey data is required for statistical test of hypotheses presented here. Such a survey was outside the scope of the present study and may be conducted as part of future research focusing on the subject.

(a) There are two types of young persons: (i) those with poor school performance (was unsuccessful in SSC examinations or dropped out without sitting in the examinations) and the second is the better performers who crossed either the SSC or the HSC level. The difference between the two groups is not merely the certificate. The actual attainments of the groups vary to a significant extent. Those who dropped out without an SSC certificate claimed that the family's poverty has been the reason. After they wrote one or two lines in the small pieces of paper where they were requested to write about their future plan, it was evident that their Bengali language skill is poor. It can be assumed that other cognitive skills are poorer. With such levels of attainment, it is not surprising that they are waiting for periods ranging from one to four years without any employment opportunity.

They were asked whether they prefer paid job or self-employment. They expressed their desperate need to do any work and have independent earnings irrespective of the type of work. Some of them showed preference for self-employment. This may, to some extent, be due to the already acquired knowledge that job market does not hold a promise of regular employment for job seekers with education less than SSC.

(b) Everyone in the group identified the economic condition of his/her family as "not good" and implied that their families have inadequate means for covering the basic expenses of the family. Since many of the boys and girls expressed their interest about self-employment, the discussion was geared to identify the barriers to their entry into such activities. The hypothesis with which the

discussion initiated is that the availability of seed capital will be of foremost importance. In the course of the discussion, it became clear that the parents, brothers or other relatives could help with small amount of money and there may be scope for mobilising funds from microcredit institutions. The lack of experience and relevant business skill emerged as the binding constraints in most cases. Most of them do not possess a specific or even a general skill for economic activities. One girl said that she has tailoring skill but not adequate for setting up a shop.

(c) Having identified skill and knowledge about business techniques as the relevant constraints, probing was done about how they could improve the relevant endowments. They discussed the possibility of acquiring the skills and expressed their eagerness to undertake training. They were prepared to pay at least a part of the cost. When asked about their awareness about the supply of specific courses, it was found that such awareness is lacking. Various government organisations as well as training NGOs operate programmes for young job seekers. While most courses are offered to better performers among SSC/HSC holders, some courses may suit low performers. Both government and private facilities must work towards establishing better links with the prospective clientels. The areas where the FGD sessions were held are within 30 kilometers of Dhaka city and within 10 kilometers of the local district headquarter. Yet there is a lack of awareness about the availability of training programmes. The situation in more interior regions is likely to be worse. The lack of basic skills of

arithmetic and language may act as constraints for many training activities. Moreover, the younger persons can put technical training into use only if it is supplemented by management skill development. Therefore, to impart useful training the courses are likely to be of long duration and that would imply high cost per trainee.

(d) For most of the young unemployed persons, a regular job is a dream. To bring them down to reality, they were asked whether they are ready to take up heavy work and long hours as required in many industries. Most of them did not mind except one or two (out of 14 in the group), although they qualified by stating that if they are remunerated adequately. This was then followed up by discussions on expected salary.[32] Most of them stated within the range of taka 2,000 to taka 2,500, with one or two expecting taka 3,000. They were quite realistic, as no one mentioned above taka 3,000. This is comparable to the benchmark of what many unskilled wage labourers earn (if they are employed for 25 days at a rate of 80-90 taka per day during the period of March-April 2004) and it is barely sufficient to maintain a family of two persons.

[32] At this stage, it was clarified that the researcher guiding the discussion does not possess "power" to create a single job and therefore, they had revealed the real baseline which they may accept.

Box 8.1

**Views and Wishes of Unemployed Youth: Results of FGD Sessions among School Dropouts**

- I want any job. I do not get job because I do not have SSC level education. The reality is that without links with influential persons, one cannot find a job. In fact, our social system is not good and that is why I do not get a job (Zakir Hossain).
- I wish to go abroad. Yes, I shall go. (Aminul Islam).
- I dream about getting a job (Masud Rana).
- It may be possible to get a job (Airin Parvin).
- If I do not get a job, I may do the work of an electrician and that can ensure survival (Ariful Shujon).
- I want self-employment and a solid ground to move forward (Shahriar Bhuiyan).
- I want to learn sewing and earn (Lipi Aktar).
- I dream about a job (Anjana Rani).
- I hope to set up a poultry farm if I get some seed capital ((Anil Das).
- I want to get a job which gives enough income to run our family consisting of my mother and two younger sisters (Najmul Islam).

(e) Even with such modest expectations, they are unable to find jobs. Most of them tried various means. Some of the case studies have been presented in boxes 8.1 and 8.2. The varied experiences reveal that there are valid reasons for frustration and many of them used harsh languages to voice such frustrations (Box 8.1).

Some more unemployed youth with SSC/HSC education were asked a question on whether he/she considered undertaking skill training and if not, why. None of the respondents has gone through a skill training course. Neither are they considering one. Like those in the previous group (without certificate), many of the cases with SSC/HSC are unaware about the training facilities. In fact, they did not try to find out and they are not even interested about finding it out. Some of the young boys with secondary certificate and

especially from non-poor households considered it a matter of embarrassment that they are required to look for opportunities of skill training to become technical hands. It would be more respectable if they could find jobs without having to undertake training.

Boys and girls from less well off or poor households showed enthusiasm about skill training. But again, they did not have any idea about what type of training they can enter into and how to use it for earning purposes.

Box 8.2

**Case Studies of Unemployed Educated Youth**

*Case Study 1*

Md. Abdul Hakim, of village Bhringaraj in Kaliakair district is a young energetic man of age 21 with a HSC level education. He obtained second division in SSC and third division in HSC which he had completed two years ago. During these two years he could not get a job or did not even try for a job because he knows that he cannot find a job with his poor grades in HSC. His plan is to learn driving at a local training school and then he will try to go abroad with a job.

*Case Study 2*

In case study 1 and in many other similar cases young persons expressed interest to go abroad with unskilled or semi-skilled jobs. But this may not be a permanent solution. They go with contracts for short periods. At the end of the contract period they return. Bashir (22 years age, SSC in 3rd division) went through such experience, worked for six months and then returned to Bangladesh. Now he is unemployed.

*Case Study 3*

Anjana Rani of Gazipur was unsuccessful in her SSC examination. She is engaged in private tutoring. She went to a well known hospital at Mirzapur to try for a "nursing" job. She thinks that she needs right contacts (I do not have links with the right persons) for getting in.

*Case Study 4*

Sheikh Muhammad Hannan, a young person of age 24, has obtained HSC degree but with a third division. He has been trying for a job and for this purpose he takes help of his maternal uncle who is a lawyer. But Hannan prefers "business" (trading type self-employment). His expectation about salary is taka 4,000 which is higher than the expectations of those who did not pass SSC or HSC.

Most of these young persons do not have definite plans about their future. They said that they prefer salaried jobs. But they are alert to the fact that with poor results in SSC, they cannot get a job. Only 3 cases, out of many boys and girls, expressed definite plans. These are presented in box 8.2.

## 8.3 Major Findings

- Unemployment rates by age group show (Table 8.2) high unemployment rate among the young workforce.
- There is significant difference in the youth unemployment rate among male and female labour force aged 15-19 years. The rates were respectively 0.2 per cent and 31.6 per cent (in 2000).
- Between 1995-96 and 1999-2000, unemployment rates among young male labour force declined while unemployment rates among girls of young age have increased manifold.
- SSC and above degree holders among the urban poor households have higher un plus underemployment rate and the disadvantage in this respect is larger in the urban area.
- The educated youth themselves identified the lack of skill and knowledge about business techniques as the relevant constraints to self-employment.
- They were prepared to pay at least a part of the cost of training. When asked about their awareness about the availability of specific training courses, it was found that such awareness is lacking.
- Young job aspirants were quite realistic about expected salary. No one mentioned above taka 3,000 per month. This is comparable to the benchmark of what many unskilled wage labourers earned at that time (mid-2004).

TABLE 8.1

**EDUCATION AND UNEMPLOYMENT**

*(Unemployment rate: per cent)**

| Education | Male | | Female | |
|---|---|---|---|---|
| | 1995-96 | 1999-2000 | 1995-96 | 1999-2000 |
| No education | 0.6 | 0.9 | 0.8 | 2.5 |
| I – X | 2.9 | 5.7 | 3.3 | 15.0 |
| SSC/HSC | 9.7 | 8.6 | 12.9 | 26.6 |
| Degree + | 8.4 | 6.8 | 15.2 | 14.3 |

**Source:** LFS (various years).

TABLE 8.2

**UNEMPLOYMENT RATE BY AGE GROUP AND SEX: 1995-96 AND 1999-2000**

*(Unemployment rate: per cent)*

| Age group (years) | 1995-96 | | 1999-2000 | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| 10-14 | 2.2 | 2.5 | n.a. | n.a. |
| 15-19 | 8.1 | 8.9 | 0.2 | 31.6 |
| 20-24 | 7.8 | 3.1 | 0.1 | 13.9 |
| 25-29 | 3.8 | 1.4 | 3.9 | 3.8 |
| 30-24 | 1.1 | 0.3 | 1.1 | 0.8 |
| 35 + | 0.4 | 0.7 | 0.3 | 1.2 |

**Source:** LFS (various years).

TABLE 8.3

**EXTENT OF UNEMPLOYMENT PLUS UNDEREMPLOYMENT BY EDUCATION AND POVERTY STATUS**

*(Per cent underemployed plus unemployed)**

| Poverty status | Education | Rural | Urban |
|---|---|---|---|
| Poor | No education/Never went to school | 37.6 | 25.2 |
| | Class I-V | 34.5 | 22.6 |
| | Class VI-X | 34.0 | 28.3 |
| | SSC/HSC/Diploma & equivalent | 30.4 | 27.4 |
| | Degree + | 35.3 | 27.1 |
| Non-poor | No education/Never went to school | 42.5 | 22.9 |
| | Class I-V | 38.0 | 23.0 |
| | Class VI-X | 35.3 | 23.3 |
| | SSC/HSC/Diploma & equivalent | 31.3 | 18.6 |
| | Degree + | 19.2 | 11.8 |

**Note:** * Those working less than 34 hours (i.e. 0 to 34 hours) have been included.

**Source:** LFS (2000).

# CHAPTER 9

## POLICY SUGGESTIONS: SHORT AND MEDIUM TERM CHALLENGES

Bangladesh's policymakers are confronted with the daunting task of acceleration of the pace of economic growth and a perceptible reduction of poverty within an identified span of time in the near future. Well-designed policies and targeted interventions in the labour market can provide effective stimulus for a simultaneous progress on both fronts. Employment policies of Bangladesh should aim at creating new jobs for the labour market entrants and improving productivity of existing jobs.

Such progress requires growth of labour-intensive sectors of the economy. This, in turn, requires suitable macro policies and creation of a conducive environment for acceleration of the rate of investment. Given the constraints of resource expansion, the efficiency of resource use must increase. In addition to the conventional macro policies for acceleration of investment, resource use efficiency can increase through improved governance situation. Such improvement is necessary for the whole range of, large to small, enterprises and for both domestic and foreign investment. The present discussion will not provide a detailed suggestion of macro policies which have been the subject of a number of other recent studies. The focus of the following discussion is sectoral policies and specific issues of employment generation for reducing inequality in the labour market. Most of the policies discussed here are linked with the findings of various chapters although some general points have also been made.

## 9.1 Major Features of the Labour Market

This chapter does not provide a comprehensive summary of findings because each chapter provides such a summary. Nonetheless, the following paragraphs provide in a nutshell the major areas of success and shortcomings in the performance of Bangladesh's labour market, which along with the summary of findings at the end of each chapter will guide us to the policy suggestions presented in sections 9.2 through 9.7.

The positive features of the performance of the labour market of Bangladesh include the following:

- There has been a continuous acceleration of growth of the labour force during 1991-2003. This has happened despite the stagnation of male LFPR. The growth of labour force reflects the demographic advantage, resulting from rising share of population in the age group 15-60. In addition, female LFPR has risen continuously.
- The growing labour force has been absorbed through growth of self and family employment. These categories of employment have compensated the lack of growth of paid jobs.
- Real wage index in both agriculture and in industry has increased during this period. The rise of real wage was, of course, smaller in the informal sectors.Without an effective role of government in administering institutional minimum wage, and with a very small coverage of trade unions, a rise of real wage reflects that there has been an increase in productivity of labour.
- Female labour force's contribution to total labour force growth and its shares in agriculture,

manufacturing as well as in paid employment within manufacturing have risen.

- Female LFPR has risen continuously, from 14.0 per cent in 1991 to 26.1 per cent in 2003. Real wage of women has grown, particularly in the non-farm sectors.

Among the challenges emerging from the analysis of the labour market situation, the following should be highlighted:

- There has been no perceptible structural change in the labour market. Shift of labour force to modern sectors, especially manufacturing, was small.Agriculture continues to contribute employment opportunities for about half of the labour force.
- The greatest weakness of the performance of the labour market, which surfaced during this period, is the lack of growth of paid employment, especially regular jobs. Most of the labour force members generated their own/family's employment. Although this shows the resilience of the workers and the scope for stretching the productive capacity of the traditional sectors, this cannot continue in the long term.
- Inequity in the labour market operates through a number of channels. Rural-urban difference is a major channel.The manifestation of such inequality is higher underemployment rate (or equivalently, lower hours of employment opportunity), lower wage rate and lower returns to human capital in the rural areas. Rural employment is dominated by agriculture and the major status of employment is unpaid family work and

self-employment. Agriculture offers lower wage, lower hours of employment and less scope for paid regular jobs.

- Women face significant disadvantages in the labour market both in terms of type of employment and magnitude of employment. Male-female wage differential is also high. This has overshadowed the success of women's role in the labour market highlighted in the sections on positive features of labour market.

## 9.2 Locational Dispersion of Industries and Policies for Structural Change

The un/underemployment situation in the labour market of Bangladesh makes it clear that the prevailing magnitude of surplus labour is not very large. Therefore, the formal sector may not be able to attract a large supply of labourers from the rural areas.[33] Wages in many formal sectors are close to wages of the informal sectors. In this situation, economic growth can be ensured by increasing the productivity of labourers through better training and skill generation among the workers and by increasing efficiency of enterprise management. Incentives through higher wage rate for the skilled workers and improvement of skills will reinforce each other (skill variable was observed to have a positive impact on hours of employment as well).

Bangladesh's labour market situation may tighten further as the informal sectors in both urban and rural areas increase investment and absorb more family members into these activities. These investments will also result in an improvement in labour productivity in

[33] Rahman (1996) has shown that opportunity cost of labour may be higher than the prevailing wage.

informal sectors. A large number of MFIs in the country provide credit for non-farm activities. Such activities create part-time self-employment for the wage labourers and draw women into self-employment. High under-employment rate which prevailed in this country during the 1970s and 1980s is turning into a situation of "low productivity and low underemployment." Policies for promoting industrialisation will need to take into account these realities of the labour market.

Since underemployment and unemployment rate is much higher among women, a choice open to the labour intensive industrialisation process is to draw female workers. This option has already been utilised by the export-oriented readymade garment enterprises of the country which are based on unskilled and cheap female labour. Female workers constitute about 70 per cent of total employment in this sector. Other sectors are also increasing their dependence on female labour. During the last two decades female labour force participation rate increased. But still the rate is lower than many Asian countries and there is a prospect of increase of such participation rate if there is a supply of better job opportunities.

The labour market situation described above implies that industrialisation should proceed through a locational dispersion of industrial units towards the rural areas. An expansion of sub-contracting system to utilise the entrepreneurial ability of small enterprises in the rural areas can provide a useful substitute for a wage labour-based industrialisation. This option can yield the desired outcome only if pursued at a reasonably rapid pace. Otherwise, the rural labour market situation will continue to change and availability of wage labour may be further constrained and expectations about wages may rise.

Growth of hired labour based enterprises in regionally dispersed growth centers can provide an impetus to both employment generation and sustained growth of manufacturing. Entrepreneurs can thrive by drawing upon local labour force, especially the underemployed female labour force. An enabling environment for development of local entrepreneurship can be created through provision of low cost power, transport, communication systems and marketing services. NGOs and private sector financial institutions should be encouraged to extend a suitable package of financial services. Protected areas for marketing and storage may be established as a component of rural/ peri-urban growth centers. A few growth centers may be initiated as pilot schemes.

Regional dispersion of incentives for secondary and tertiary sector activities can be an effective way to reducing inequality. Special schemes for depressed areas should be taken up. Infrastructure for linkage between semi urban growth centers and rural hinterland may help in direct and indirect employment generation.

Employment growth must consist of a larger proportion of paid employment and especially regular employment. Many studies on policy suggestions for employment creation focused mainly on self-employment in rural non-farm activities. But the emphasis should gradually shift to promotion of enterprises using hired labour along with family labour. Purely family labour based activities have less scope for technology upgradation and expansion of scale. Appropriate incentive package for hired labour based non-farm sector in the rural areas should be provided.

Agricultural growth still has prospects of generating demand for hired labour. Therefore, in the short run

agricultural growth must be accelerated through appropriate policies for use of modern inputs and crop diversification. In the medium term, policies should encourage non-cereal agricultural production, especially livestock, fishery, horticulture, etc. They can have linkage effects through agroprocessing development, which in turn requires proper incentives. Real wage rate in agriculture may, however, show a faster rise if there is competition from non-farm sector which generate better paid employment opportunity. This is an important route through which RNF can help in poverty reduction.

## 9.3 Policies for Self-employment

Self-employment can perform an indirect role in poverty alleviation through

- Provision of supplementary earnings
- Creation of income earning activities for women who would not be able to join wage employment because of the burden of domestic chores.

To help expansion of family labour based employment for households with low asset base, some specific suggestions based on the case studies of chapter 6 have been presented below.

- Skill generation and specific targeted training can play a critical role in the development of self-employment through MC.
- Most self-employment enterprises are vulnerable to risks which cannot be afforded or overcome by poor households. This implies a low or negative expected return for many activities. Risks are higher for households whose current assets are inadequate to provide protection to the financial/

physical capital.These enterprises must be provided with micro insurance facilities.

- Role of infrastructure can be critical for expansion of self-employment. Infrastructure activities can also create wage employment in the short run.
- Creation of marketing channels, provision of storage service and transport service can alleviate some of the constraints to self-employment.

## 9.4 Women's Employment

A renewed concern about women's employment arises from the conclusions listed in section 7.1. To reverse the negative features of women's employment situation and to improve their earnings opportunities, both short term and long term interventions are necessary. A number of suggestions have been put forward in Rahman (2003). Here only specific suggestions for women from low income households are added.

Given the enthusiasm of young girls about engagement in income earning activities, pilot schemes of special non-conventional employment programmes for young school educated girls may be initiated through the secondary schools. Goods and services to be produced may target local demand and may also be supplied to urban centers. Nursery items, furniture and wood products,services like typing and other non-conventional activities may be encouraged. Such programmes can link formal schooling with development of entrepreneurial skills.

Since underemployment and unemployment rate is much higher among women, a policy option for poverty alleviation is to promote labour-intensive industrialisation based on employment of female workers. This

option has been mentioned in an earlier part of this chapter.

Despite the overwhelming role of private employers in the labour market, public policies can have a significant contribution to the reduction of gender inequity. Government can play important roles in a number of spheres, including both direct and indirect interventions, and developing general guidelines along with specific interventions through various programmes.

In Bangladesh the mainstream development institutions and private sector growth have evolved around a male dominated clientele and therefore have incorporated deeply rooted prejudices with adverse impact on the progress towards gender equity in employment. A determined and deliberate effort to change such environment is a prerequisite for ensuring gender equity in any sphere of the labour market.

To encourage women's employment in urban industries, government may adopt programmes for provision of services for the female employees (including transport services, health and housing facilities, etc.). Moreover, employment in the export sector implies the possibilities of job loss with the fluctuations in export growth. Programmes must be adopted to minimise the adjustment costs of the workers who lose jobs.

In addition, women are currently employed in low wage jobs. Returns to women's self-employment are lower. Education and skill training provide a key to the solution of both problems.

One may ask whether employment generation in crop agriculture can absorb a part of the available female labour force. Recent experience of labour absorption and wage rate in this sector suggests that the prospects of employment of women in this sector are not so bright.

At the end, it should be emphasised that labour standards for female workers and gender equity in employment can be improved only when it is not at the cost of a deterioration of the labour standards provided to the male workers.

*9.4.1 Women from Marginal Poor Groups*

Women from marginal poor group are usually allocated with some responsibility of family's economic activity. This group of women can neither venture into full time self-employment nor would they be willing to engage in wage employment. They do not usually possess specific skills of crafts and do not possess links with agencies for learning such crafts or marketing of skill based products. Some of these women may come forward for self-employment and this group can form the typical clientele of NGOs. If NGOs can provide training, loan and inputs and also act as social entrepreneurs and take up the responsibility of marketing of output, this group of women may turn into a productive force. NGOs profit in these cases (where new employment for women is generated) may be exempted from tax. Other forms of support to such NGOs may be provided, including subsidised facilities, which can be used for providing training. Such training and direct income earning self-employment in contrast to "unpaid family employment" can be a step forward for this group of women.

Regionally dispersed industrial growth can take advantage of this source of labour supply. Sub-contracting to female home based workers can also contribute to enterprise competitiveness. Women willing to engage in subcontracting may be trained by respective employers.

### *9.4.2 Poorest Women Seeking Wage Employment*

In each village, a few such women without male earning members in the household are found to eke out marginal living. Number of such women is much larger in villages at the pockets of severe intensity of poverty, for example, in the north western districts. In these areas, women are desperate to obtain wage employment. Many of the male members of such households migrate to other areas. In these areas special employment programmes for women should be planned. Women (or even men) who are prepared to work for wage rate slightly below the closest available private sector employment should be given opportunities of such employment gurantee schemes. Safety net type employment for women may be provided for building/ maintaining roads and other public facilities. Cleaning market areas, public water bodies, schools, etc. are examples of activities which may be assigned to groups of women on contract basis.

## 9.5 Policies for Reducing Educated Unemployment

One cannot ignore the changes in the quality of labour that will be in demand in the future labour market and the changes in expectations about wage/salary among the young educated labour force. It must be recognised that the future industry/service enterprises cannot grow if these are competitive only at the currently prevailing low wage rates which can hardly enable a worker to maintain a family above the poverty level. A higher wage rate can, however, be paid only if the productivity of labour is higher which will be possible through use of a higher technology level requiring commensurate with higher levels of skill and education. Quality of education must improve to

respond to this challenge. The study has shown that educated unemployment is high although the overall open unemployment is low. The existing mismatch between the demand and supply situations of educated labour force must be eliminated. With a proper balance of the private sector incentive package and government investment on human capital, a smooth transformation of the low productive unskilled labour into high-wage, skilled labour force can become a reality in the medium term.

### *9.5.1 Addressing the Training Needs*

The deficiencies of skill and inadequacies of educational attainment as factors behind un/under-employment and low earnings have been mentioned in the course of discussions in various chapters. Given such deficiencies, the policies for raising the employability of the labour force through skill training can be effective means for employment expansion. In this respect two types of suggestions will be offered: one for the long term and the other for immediate short term programmes. Well-designed policies to improve the quality of labour force and commensurate policies to create matching employment opportunities can provide effective stimulus for a skill-based growth of secondary and tertiary sectors.

Human capital development strategy must place emphasis on improving the employability of secondary educated school dropouts who are mostly poor. This is particularly important because the growth centers in the peri-urban areas are expected to draw upon these sources of surplus labour. Detailed suggestions on development of vocational and technical training have been presented below.

The short-term programmes will aim at short duration training to the young unemployed and will require immediate implementation. This precludes the possibilities of integration of school education with training facilities. The short-term programme will also assume that it will be based on the existing institutional facilities.

The key issues to be kept in mind about the short run trainings are:

- It will take into account the existing supply side into consideration: the trainees will have educational endowments which are effectively much less than what is expected of class 10 or 12 graduates. They cannot pay high fees. A practical assessment is that they may pay about taka 500 to taka 1,000 per month for 3 to 6 months. Subsequent groups of trainees may be ready to pay larger amount if the return to such training is demonstrated by handsome returns. If immediate absorption of trained person into jobs with salary ranges of taka 2,000 to taka 3,000 per month is demonstrated, then future rounds of trainees may pay much higher fees for training purposes.
- The critical issue is, therefore, linking training with jobs. Here the past experiences of un-successful training activities of public institutions must be borne in mind. Traditional training with rigid and old curriculum was ineffective in making the trainees employable. Employability of trained personnel is a must for generating future demand for training. This can be ensured through prior assessment of demand.The assessment of training needs must first explore the sectors, and locations where demand will be generated. Without an accelerated growth of small and medium

industries, training to generate semi-skilled or skilled labour force cannot have a good prospect.

- A large component of short term training should, therefore, target for self-employment. This will require a combination of skill training and management training. Training organisations should be reoriented to combine not only various types of training but also to adopt practices for "getting the enterprise started." This will require provision of inputs including credit.
- Multi-input facilities described above can be provided through flexible private training organisations if these are supported by government services MFIs and training NGOs may enter into collaborative programmes. Apex bodies of NGOs and MFIs may experimentally adopt programmes in this direction. Locations close to district headquarters will have better prospects if a number of complementary activities can be initiated with identified input supply channels and adequate demand for products/services.
- Another target group for short term training consists of future stream of out-migrant workers. Again, the field of training must be decided in consultation with the recruiting agents and prospective migrants.

*9.5.2 Medium and Long Term Policies for Training*

The nature of such policies will depend on the pace of economic growth and the structure of such growth. Therefore, the type of employment targeted and the level of skill needed cannot be precisely predicted. Assumption of a medium range of economic growth and industrial growth rate will imply that higher skills should be gradually targeted.

Effective policies of planned skill development require attention to the following aspects:

- Continuous monitoring is required to keep track of structural changes in the economy and projected medium and long term sectoral growth with the associated change of demand for skill.
- Skill training must be diversified to cater to all types of users and various groups of labour force who would receive training.
- Basic trade courses currently offered for Classes IX and X in some secondary schools should be extended to cover the entire secondary schooling system; to this end, facilities of training institutes/colleges for technical teachers should be extended. Existing facilities may be operated in two shifts.
- Short courses may be offered in areas such as business management, design, light engineering, hotel management and catering, computer technology, marine technology, mining, instrumentation technology, and farm technology.
- Programmes should be worked out jointly by the Directorate of Technical Education (DTE) and Bangladesh Open University (BOU) to offer evening courses using existing technical and vocational institutions facilities.
- Training courses may be combined with mainstream schooling. Current capacity of "vocational group" in SSC may be extended and made more effective through imparting such levels of skill as would enable a student to get job. In addition, there should be scope for vocational degree holders' mobility into other tracks of studies. Moreover, by imparting more indepth courses, which will lead to better opportunities, better

students may be attracted to vocational studies and thereby setting the virtuous circle of good student → good training → good job → good education of children.

- Exclusion of underprivileged youth, school drop-outs, and poor adult women is one of the important problems of the present system of the public sector vocational education and training (VET) system. Students from poorer families have extremely limited access to vocational training institutes (VTIs). One study reports that in VTIs only 3 per cent of the students were from the landless group (FREPD 1981). Neither is there scope for upgrading skills of employed or retrenched workers.
- Public sector training facilities should give more emphasis on new skills. Thrust sectors such as computer related services and new generations of leather goods may be encouraged. Improved design and finishing of leather goods may open up opportunities for self-employment among women. Properly targeted training in this area, along with an appropriate package of inputs, may also enhance women's prospects for self-employment.
- Various aspects of IT skill generation should receive priority in the context of revolutionary changes in ICT.
- More indepth and better quality training will, of course, require better quality of teachers. Training of teachers should, therefore, receive attention.
- Gender balance in imparting training is of utmost importance. As shown in the analysis of labour market situation, a large percentage of women are subject to unemployment and underemployment. Therefore, it is essential that they are drawn into the training schemes.

## 9.6 Generating an Information System

To reduce educated unemployment, programmes are required for assessment of market demand for various types of skills and for publicising information related to jobs for educated labour force. A mechanism should be worked out for monitoring and dissemination of short-term labour market signals, and for generating relevant information on the supply of and demand for various skills on a continuous basis.

Studies have revealed that for the female workers, the most important source of information about jobs in the garment sector and other formal sectors was the links with relatives employed in the same sector. When a factory faces closure, the workers who become un-employed find it difficult to get information about when it will reopen. Therefore, many of them do not go back to their village home or frequently come back to the city to obtain the information and thus incur expenses which is an additional burden.

An institutional arrangement should be made through the government's directorate of women's affairs. Employers or their associations may consider the creation of a new project which will be used for the purpose of dissemination of job opportunity, redun-dancy, etc. Here workers may personally come or communicate through mail/phone. It should have a capacity for the preparation of independent assessment of labour market situation and its dissemination. Employers views on the scheme should be sought because they will play a critical role in its imple-mentation.

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