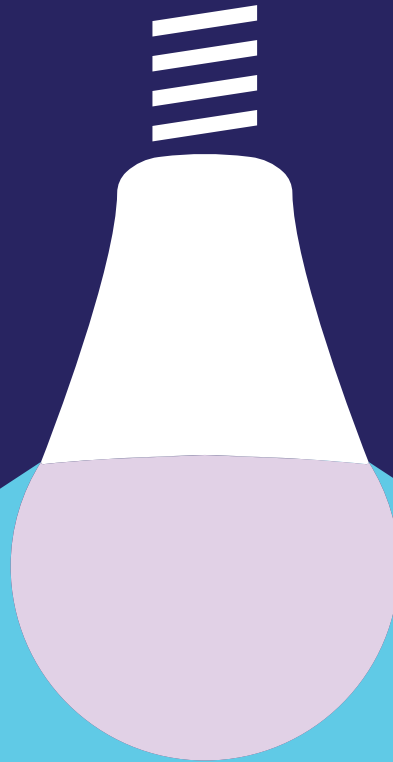


# Development Letters

Issue

JUL-AUG '22

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# About Development Letters

*Development Letters* is a new periodical that aims to promote ideas with important policy and practical implications for a developing country like Bangladesh. This publication provides a platform to introduce thought-provoking ideas on broad development issues through short and concisely-written articles that are comprehensible to policymakers and development practitioners.

*Development Letters* is different from other established academic journals in several respects. First and foremost, it emphasises on communicating the propositions in a manner that can help integrate senior policymakers and other relevant stakeholders into the policy discourse. Disseminating potentially important and timely ideas without being stifled by technical details and unnecessarily long and ambiguous review of other studies is one core objective of this publication.

Furthermore, *Development Letters* will also select and publish ideas that should require full-blown research for gathering evidence. These days, policy-relevant analytical studies are often in short supply given the lack of financial support needed for conducting those. This journal will showcase the underlying ideas that need to be supported to bridge the gap between analytical research and informed policymaking.

*Development Letters* will also offer an opportunity to learn from those who—based on their experience—can share insights into the factors that cause development results to be less than optimal. This can help generate invaluable lessons for future interventions.

Finally, *Development Letters* is about dealing with issues that are topical and demand immediate policy attention. It is a usual phenomenon in social sciences that empirical research can be quite time-consuming, and any evidence gathered may require further verification. This publication will duly acknowledge this challenge while highlighting the promising ideas that need due consideration. To summarise, this periodical focuses on bringing together relevant issues, ideas, and approaches that can be researched, refined, experimented, and investigated further.

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# Transitioning from 'Fast Fashion' to 'Green Fashion': Can the Green be Greener?

*S M Zahid Iqbal*

## Background

Following the oil and gas industry, the fashion industry is not far behind as one of the worst global polluters. There has been an ever-increasing number of apparel brands producing fast-fashion garments. These brands tend to focus on short, fast supply chains to bring the newest fashions to the consumers before their competitors. This leads to garments that are only designed and meant to last through a season, ignoring the quality and longevity of the final product. These designs with speed-to-market business models mimic the "fast-food" models of the food industry and are as harmful to the environment as fast foods are to human health. Recently, ethical and sustainable initiatives are growing more common within the apparel market, along with increased consumer interest in purchasing from transparent companies that uphold sustainable and ethical practices. McKinsey and Company's report "The State of Fashion 2020" (Ahmad et al., 2020) finds sustainability and transparency to be of rising concern to consumers, leading them to pressure apparel brands to be more eco-friendly. This consumer concern inspired fashion designers and merchandisers practice sustainability in design and production.

The most frequently used definition of sustainable fashion is "clothing, shoes, and accessories that are manufactured, marketed and used most sustainably. In practice, this implies continuous work to improve all stages of a product's life cycle, from design, raw material production, and final sale, to use, reuse, and recycling of the product" (Ahmad et al., 2020). Further, the workers producing such sustainable garments supposedly receive decent wages and greater protection than their fast fashion industry supply chain counterparts. Thus sustainable fashion advocates

ecological and social sustainability by emphasizing on quality, at every stage of production. That is why this eco-fashion is often called "slow fashion." The terms sustainable fashion, ethical fashion, and green fashion are often used interchangeably to explain the same concept. However, while sustainable fashion caters to both the green and ethical dimensions of fashion, green fashion concentrates on the environmental aspect by endorsing the consumption of recycled resources and biodegradable fibers (Saha et al., 2019).

## Where Does Bangladesh Stand?

Bangladesh, the second-largest apparel exporter in the world and contributing 7.66 percent of GDP in FY2021 (RMG Bangladesh, 2022), has every reason to be concerned about the shift in consumer awareness and act accordingly. Against this backdrop, Bangladesh currently boasts to be the greenest garment factory in the world. Till May 2022, the number of green garment factories recognized as green by the United States Green Building Council (USGBC) is 160; which is the highest globally (RMG Bangladesh, 2022). Motivations for going green are environmental safety, a safe working ambiance, reduced energy use, and enticing consumers (RMG Bangladesh, 2022).

Suppose any factory fulfills some mandatory prerequisites like energy meter installation, digital water meter installation, & some other policy-related issues; in that case, it is tagged as a green factory. So, to be green certified is not a very expensive and challenging process at all, given the factory fulfills a few of the requirements. But for holistic, sustainable growth in this industry, the key hurdles are massive infrastructure, high maintenance costs, and a lack of green-financial assistance. This disparity between costs of merely

meeting the minimum requirements to earn the "green" tag and going full-fledged "green" might lead many ready-made garments (RMG) factories to strategically prefer the cheaper option of being merely a "green factory." Is it green, sustainable fashion? Yes, to some degree. But is it what the world is rooting for? Not remotely. Green fashion is a new approach to "fashion with a conscience." To assist in controlling "greenness," certifications and standards are needed to ensure that specified conditions have been met. Fulfilling the bare minimums and fulfilling all requirements are not the same shade of green. But, going greener is costly, and it takes time. Some of the significant challenges that the RMG sector faces while working towards making the industry go green, include, but are not limited to, higher cost of organic or sustainable raw materials, lack of eco-friendly waste management system, lack of infrastructure to minimize carbon emission, lack of advanced technology, lack of public awareness about sustainable production system, and consumer sentiments or absence of their preparedness to bear the increased price of greener fashion.

## **Way Forward for Bangladesh RMG: Role of Supply Chain, End-users, Fashion Houses, and Importers**

For the RMG industry, going green is feasible only if fashion brands induce the end-users to pay for greener goods. Existing research states that if consumers believe there is an environmental problem, they are more likely to adopt consumer behaviour geared towards alleviating the problem (Mainieri et al., 1997). It states that consumers' pro-environmental concern is one of the determinants of their "green buying" behaviour, i.e., buying and consuming environmentally beneficial products. A more sustainable, eco-friendly garments production procedure would be feasible in the long run when the fashion brands and sectors involved in the supply chain can enjoy profitability. Determining the premium consumers are willing to pay for sustainable garments is an important question. The shade of "green" depends on this finding significantly.

Existing research has identified several critical factors to motivate individual consciousness about environmental sustainability. When individuals are concerned about the environment they not only work towards the welfare of others, but they also act responsibly and reasonably towards the environment.

<sup>2</sup> Ha-Brookshire et al. (2011) found that consumer attitudes toward social responsibility and environmental sustainability significantly depend on age and gender, which are also significant factors for consumers' willingness to pay a premium. Consumers who are concerned about the environment and are knowledgeable about environmental issues try to purchase only eco-friendly products (Laroche et al., 2001). So, holistic, all-inclusive policy strategies must be considered at every stage of apparel production if we want to reap the maximum outcome from green

fashion. A one size fits all approach would not be sustainable for the entire garments and fashion industry. Policymakers and researchers should initiate more in-depth, quantitative, and qualitative research to help the fashion industry transition to greener fashion. Bangladesh, being the second-largest apparel exporter, would aim to cement its position irrespective of the changes in rules, regulations, and production procedures.

Considering the environmental impact, the European Union (EU) has declared war against "fast fashion." European regulators are planning to propose rules and regulations to force factories involved in garments to overhaul their clothing designs to meet a laundry list of criteria governing everything from the durability of the apparel to the final production (Chakraborty et al., 2022). The rules and regulations would also cover labour and the working condition of the factories. The USA also seeks to address the environmental and social impact of the fashion industry. It plans to propose a law requiring large fashion companies "to disclose environmental and social due diligence policies" (Alzate, 2022).

The regulations will most likely cover other facets of the fashion and garment manufacturing industry as the sustainability concern attracts more attention. All this newness will present new opportunities for many countries to enter the garments production and export business as the factors of production, the production procedure, and many other related production dynamics. These changes will also require a considerable investment. The higher production costs would also require the final product's prices to be higher. Bangladesh policymakers must be very thorough and far-sighted to develop the appropriate strategies to ensure its competitive advantage. It is not possible to wait for the regulations to be in effect to start making changes as that will give other countries a competitive edge. Also, social initiatives to promote green products should be undertaken to reach the end-users. The importers of RMG products should be brought into the whole supply chain and production loop to avoid forgery and to encourage paying fair prices for green products. Going greener in RMG production will also take Bangladesh on the path of sustainable development. Now, only the strategies that policymakers would come up with will determine whether Bangladesh can take on the challenges and turn them into opportunities or would lose its competitive edge.

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***“A more sustainable, eco-friendly garments production procedure would be feasible in the long run when the fashion brands and sectors involved in the supply chain can enjoy profitability.”***

# Water Security in Secondary Cities of Bangladesh: A case of Mongla

*Khandker Tarin Tahsin, Lutfor Rahman & Md Bodrud-Doza*

## Importance of Secondary Cities

Growing under the cognitive shadow of primitive cities, the importance of secondary/intermediate cities are seldom highlighted by researchers, urban planners, or even the central government. In recent times, such cities in developing countries have been identified as centers for trade and for public and private services. These cities also play particularly important roles in rural development and are now marked as the fastest growing areas which often are the economic engines of their larger counterparts. Nearly two-thirds of all the secondary cities of the world are in Asia and Africa (Marais et al., 2015). Considered as trade hubs, these cities are becoming increasingly attractive to migrants, however, they are treated as subordinates when it comes to ensuring basic services and facilities, particularly in South Asian regions. Mongla city of southern Bangladesh is one such example; playing major role in the country's economy and offering immense employment opportunities, it is currently experiencing sheer negligence from the central government for ensuring basic social services.

## Climate-driven Displacements in Secondary Cities

Bangladesh being one of the most vulnerable to climate change has always survived its share of tropical storms, flooding, droughts, and other natural disasters. But as climate change increases the frequency and intensity of such disasters, it creates new patterns of destruction, one of which is migration and the explosion of rapid, unplanned, and chaotic urbanisation (Mcdonnell, 2019). Although there are multiple factors affecting rural-urban migration, climate change recently has been considered as a prime driver of migrants

toward urban peripheries in Bangladesh. Most of these migrants are likely to move towards megacities like Dhaka, considering the number of employment opportunities it offers. However, lately, secondary cities like Mongla are known for offering a cautionary tale for climate migrants as well. Mongla currently is known for having the second largest seaport in Bangladesh and is a hub for climate migrants. As a huge chunk of the rural population flows towards this trade hub, land crisis skyrockets which often forces individuals and communities to choose informal settlements and compromise basic services like access to safe drinking water. While this city aspires to be a climate-migrant friendly city, it mostly emphasizes on infrastructure development and economic growth; whilst social aspect of ensuring basic services for residents remains underexplored.

Shilpi Khatun of Signal tower is one example of Mongla's informal settlements, where communities barely have any access to basic services like safe water. Thirty-seven years old Shilpi lives by Pasur River in Signal Tower in Mongla, with her 12 years old autistic daughter, 2 years old son, and 60 years old husband who is currently suffering from cancer. As the freshwater sources are miles away from her residence she often feels reluctant to leave her children alone and fetch water. Moreover, due to freshwater scarcity, water is available at collection points only for an hour or two; which often means dwellers return home empty-handed after waiting for hours in long queues. Options such as buying water from vendors are present, but she can barely avail those as three jars of 30 L cost around US \$1. The vicious cycle of poverty, lack of social safety programs, climate change impacts, rising salinity, and constant conflicts within communities in accessing safe drinking water forces Shilpi and many of her community members to depend on

contaminated pond water. And such dependence on saline water has strongly been correlated with multiple health issues like urinary tract infection, diarrhea, hypertension, and strokes; miscarriages and other complications in pregnancy in women.

## Existing Interventions

Given the water crisis situation, optimisation of water management systems seems the most reliable option (Hossain et al., 2022). Rainwater harvesting has evolved as one of the most widely used and preferred options by most of the community people considering its social, economic, and environmental benefits. High annual rainfall in Mongla also makes rainwater harvesting a great alternative. One might question the idea of introducing deep tube wells; however, the high salinity in groundwater sources has made tube well an unfeasible alternative (Hossain et al., 2022). Hence, monsoon brings respite to the communities of Mongla, as high rainfall means a rise in river water level, reduced overall salinity in water and people can preserve rainwater for later use. Rainwater harvesting usually refers to a technology of collecting and storing rainwater from rooftops, land surfaces, or rock catchments using jars, pots, or well-engineered structures. Nevertheless, most of these storing containers used by locals are earthenware pots which are prone to breaking, catching molds, and can only hold up to 16 liters of water max.

During the 1990s, World Vision excavated a rainwater harvesting pond for the informal settlements in Mongla which would reduce their water crisis to a certain level. Nevertheless, the pond was far away from the locality and people had to walk at least an hour to fetch water. Other NGOs and INGOs working in Mongla have sponsored a few rainwater harvesting tanks, but unfortunately, those are not enough for the total number of people residing in an informal settlement. Additionally, the installation cost of rainwater harvesting tanks is around USD 350 (BDT 30,000), which is quite high for people living in informal settlements, as most of their monthly income ranges between USD 80 to 100. In recent times, BRAC has also taken initiatives to construct several rainwater harvesting tanks which can hold up to 2000 liters of rainwater in Mongla under its climate change program (Web, Relief, 2022). This might reduce the water scarcity issue in the region; however, it's yet to be implemented. The locals are also reluctant to get a legal water connection because of the cost associated with it; as they lack land ownership there's a high chance of them being evicted; therefore, investing around USD 100 may not seem worthwhile for communities. Further Department of Public Health Engineering (DPHE) is providing rainwater harvesting tanks and freshwater lines in the informal settlements of Mongla in consortium with local NGOs free of cost. Such initiatives by government organisations and NGOs may seem enough but are far less compared to the population residing in informal settlements of Mongla.

## System of Provision as a Possible Solution

The persistent lack of safe drinking water in Mongla despite multiple interventions by government and NGOs, indicates that it is time for a radical shift in the understanding of the problem and solution. A working concept known as System of Provision (SoP) offers such an alternative and is expected to be more effective. SoP calls for problem analysis to be strongly based on specific historical contexts, such as politics and power dynamics of water access. It is built upon five fundamental components of a system: agents, relations, processes, structures, and material cultures (Bayliss & Fine, 2020). By unpacking these five components, the drivers of observed outcomes in communities, especially in relation to under-provisioning and inequalities, can be unpacked. If policies are to be mediated through this approach via the agents identified in a community, there's a higher chance of water reaching the end users. Additionally, this approach puts forward the proposal of empowering slum-dwellers in their relations with the city's water utility to access safe drinking water in informal settlements. Hence, it is imperative that the water crisis issue in informal settlements should be looked through a lens of SoP, which aims to ensure inclusive urban settlements and strengthen central water system for secondary cities like Mongla and promote social awareness.

*The researchers have investigated in-depth on this topic as a part of a research project Trajectory for Inclusion at International Centre for Climate Change and Development (ICCCAD). System of Provision (SoP) has been their primitive approach to identifying solutions for the existing problem in Mongla, Bangladesh regarding water security in informal settlements.*

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***“The water crisis issue in informal settlements should be looked through a lens of System of Provision (SoP), which aims to ensure inclusive urban settlements and strengthen central water system for secondary cities like Mongla and promote social awareness.”***

# Revving Up the ICT Growth Engine

*M Abu Eusuf, Nazneen Ahmed & M M Zimran Khan*

Rapidly growing information and communication technologies (ICTs) have brought new dynamism in access to health and education services, creating new sources of income and employment. Being able to access and use ICTs has become a major factor in driving competitiveness, economic growth, and social development. This sector also has great potential in terms of export diversification.

There is a great deal of optimism that the ICT sector, especially the outsourcing-related segment, can emerge as the next export growth engine for Bangladesh. The growth of this sector can also help generate employment opportunities, particularly for the youth. In recent years the outsourcing-related segment of the ICT sector has achieved rapid growth with promising efficiency improvements in the supply chain.

Outsourcing services comprise a plethora of activities using a range of technologies, from the low-end ones to the high-end. Low-end services generally include front-office activities (e.g., customer support, back-office activities (e.g., invoice scanning, data entry, and accounting services), and creative content development (image, video, and audio).

Higher-end services include software development, cloud services such as Amazon Web Services (AWS), Microsoft Azure, Google Drive, and Dropbox, artificial intelligence (AI) services such as digital virtual agents, chatbots, automated financial investing, and image processing, and data analytics which is the analysis of data-sets to find trends and draw conclusions.

The COVID-19 pandemic has accelerated digital transformation at both the business and consumer levels throughout the world. According to the 2020 McKinsey Global Survey of executives, companies have

significantly accelerated the digitalisation of their customer and supply-chain interactions, as well as their internal operations, with Microsoft's CEO stating that they have seen two years' worth of digital transformation in just two months of 2020 (January-March period).

Companies had already been implementing 4IR (4th Industrial Revolution) technologies before the pandemic. While a lot of businesses worldwide were shut down due to COVID-19, many have taken advantage of the rather unusual times by digitally modernising their organisations to prosper. Digitalisation is expected to boost productivity, reduce labour costs, and improve returns. Businesses have increased their expenditure on technological improvements significantly.

There are projections that the spending on cloud services and other digital services, including analytics, artificial intelligence (AI)/machine learning (ML), cyber security, and user interface (UI)/user experience (UX) is likely to expand dramatically over the next few years.

Though Bangladesh has achieved impressive advancement in digitalising society, acquiring skills for technological catch-up and expansion is yet to go a long way. In this context, Bangladesh needs to consider undertaking serious policy measures and firm-level preparations to promote competitiveness. The Kearney Global Services Location Index (GSLI) 2021, which evaluates the competitiveness of outsourcing locations, ranks Bangladesh 33rd out of 60 nations. In contrast, comparator countries such as India, Malaysia, and Vietnam are among the top performers ranked at 1st, 3rd, and 6th, respectively. Bangladesh had the lowest score in workers' skills and availability component among the mentioned countries. Industry stakeholders in Bangladesh also noted the lack of skills (both



technical and soft), as well as an out-of-date curriculum as notable reasons for this deficiency. Overall, Bangladesh offers a very low cost of operations but lags in other areas.

To identify the useful technical and soft skills demanded by Bangladesh-based IT outsourcing firms to supply high-value and high-growth (in terms of revenue) services to the global outsourcing market, Research and Policy Integration for Development (RAPID) with the support from United Nations Development Programme (UNDP), Bangladesh Accelerator Lab recently surveyed 54 firms which are either members of Bangladesh Association of Software and Information Services (BASIS) or Bangladesh Association of Call Center and Outsourcing (BACCO).

The exercise divided the IT outsourcing industry into three segments: i) BPO (business process outsourcing services), ii) KPO (knowledge process outsourcing), and iii) IT and ITes (information technology and information technology-enabled services). BPO usually comprises low-end services, and IT and ITes medium-to-high-end services, with KPO being at the top of the spectrum. The survey assessed the skills required by the firms operating primarily in the IT and ITes and KPO segments. Some interesting results have been noted from the survey, and these have great importance for adopting policies for improving the competitiveness and efficiency of the sector.

Around 65 per cent of the surveyed firms export at least one service within the 4IR areas (such as ML/AI, cloud computing, data science, and big data analytics). On the other hand, about 95 per cent of the surveyed firms that have not yet exported such services aim to do so within the next two to three years. This finding indicates the intention of the surveyed firms to provide high-end services.

Most clients of the surveyed firms operate in the IT, telecom, e-commerce, and retail industries. A considerable portion of the firms are taking concentration risk, putting their investments/services in just a few industries; however, they positively view such concentration, considering it as a reflection of specialisation leading to attracting new clients.

Employee attrition, i.e., the departure of employees from the firm for any reason, has been identified as a major concern for Bangladeshi outsourcing firms. As firms invest a substantial amount of resources in training new employees, especially freshers, a high attrition rate is costly for them. Over the past year, the average attrition rate for the surveyed firms is estimated at 22 per cent. For the mid-level manager group, this figure is slightly higher, at around 26 per cent.

The surveyed firms have differing opinions on the range of technologies/languages that they should use. While some believe that clients prefer a proven track record in a limited number of technologies/languages (a proof of specialisation), others argue that expanding the

technologies/languages benefits larger customer bases and is good for securing revenue consistency.

According to the survey, the most common programming languages in Bangladesh are JavaScript, Java, Node.js, PHP (including Laravel), ASP, Python, C#, C/C++, Flutter, MySQL, and Angular (TypeScript). The most used application softwares were found to be Adobe Photoshop, Adobe Premiere, Autodesk, and Final Cut Pro.

Taking a look at the most popular programming languages in India, the IT outsourcing leader, provides some clues to what Bangladesh might be missing. It is found that Kotlin, R, and ABAP are among the most used technologies/programming languages among Indian IT firms; however, it is not the case for their Bangladeshi counterparts, indicating that the former provides more high-end services. The use of Kotlin by Indian firms shows that they are strongly involved in various Android and cross-platform mobile app development in the IT and ITes segment, and the use of R and ABAP suggest their substantial involvement in market intelligence and asset management related KPO services.

The most frequent technology/programming language on which freshers were trained was found to be Java, followed by PHP, JavaScript, and Python. In the previous two years, more than 40 per cent of the surveyed firms had retrained new employees using web-based learning platforms.

When it comes to recruiting freshers, a considerable gap between the skill levels demanded by the employers and the level of skills possessed by the freshers has been found. The gap becomes more profound when only firms operating in the higher-end segments are considered. A similar trend has also been observed for employees with a few years of experience but to a lesser degree. The experience and skill gap for mid-level managers have been also found to be significant.

Soft skills such as English fluency, teamwork, effective and engaging presentation skills, and problem-solving are critical in the outsourcing market. According to most firms in the survey, when freshers are employed, they typically lack two soft skills: English speaking and presentation skills.

The surveyed firms believe that government training aids and incentives can be highly beneficial to businesses since they save a lot of resources (money and time). They also suggest that it is important to strengthen the industry-academia collaboration to design a labour-market-responsive curriculum.

Women's participation in the IT sector is quite low. The survey found that only around 15 per cent of the employees were female. Segment-wise, the share was found to be the highest for BPO and the lowest for KPO. This participation issue could be due to their

lesser representation in science, technology, engineering, and mathematics (STEM) subjects, particularly IT. How the ensuing gender gap in the digital workforce market can be addressed thus constitutes one crucial policy issue.

Industry stakeholders believe that accreditation of online courses is needed to enhance access to high-quality education and training. To strengthen accreditation and ensure the smooth operation of online courses, an online education institute could be established that integrates both the industry and academia and would be responsible for the design and delivery of online courses as well as the online course marketplace. However, employers think that blended courses (which include online and offline learning activities) are better than fully online courses; they prefer some level of in-person interactions, especially in the case of assessment of the participants. Hence, blended courses should be provided instead of fully online courses.

Given the industry's immediate technical skill demands, training on Angular (TypeScript), ASP, C#, C/C++, Django (Python), Flutter (Dart), Go, HTML/CSS, Java, JavaScript, Laravel, MySQL, Node.js, PHP, and Python should be beneficial, with a focus on Java and Python. Moreover, it is necessary to raise awareness among both international and domestic clients about the skills available at local enterprises. The government could establish IT promotion cells at embassies/high commissions to not only publicise the skills of domestic IT enterprises but also to explore equivalent overseas market prospects and connect them to domestic firms.

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# Is Sustainable Urban Development Affected by Climate-induced Migration and Informal Settlements?

*Nobinkhor Kundu*

## Why are Climate-induced Migration and Urbanisation Crucial Issues in the World?

Climate change is a global observable fact and various risks (such as floods, heavy rain, storms, and droughts) are associated with the livelihoods of rural people, especially in areas with limited economic opportunities (Giri et al., 2021). This is particularly a significant issue because it means people have limited opportunity to do work in the climate-affected coastal areas of a country. Obviously, climate change is exacerbating the vulnerability of poor urban residents to natural hazards. The impact of climate change emphasizes on the crucial need for adaptation strategies in urban informal settlements. Besides, climate risks have compelled vulnerable rural people to migrate to informal settlements in urban slum areas. Informal settlements are taking place due to the climate-impacted risks, where poverty, inequality, and deprivation are common phenomena in urban areas across the underdeveloped and developing world.

Climate-induced migration and urbanisation are integrated throughout the globe. Urbanisation has been an increasing trend, and it is expected that climate-affected people will gradually migrate to cities across all regions in the coming decades. Much of the developing world's urbanisation has evolved not as a result of different rates of population expansion, but rather as a result of increased rates of urban migration due to the vulnerability of climate change. Currently, more than half of the world's population is settled in urban areas, and urban areas are hotspots of climate change risks. It is expected that 66 per cent of the world's population will move to cities by 2050 (UN-Habitat, 2018).

## Is Rapid Urbanisation Forcing Informal Settlements into Urban Slums?

Rapid urbanisation is indeed a result of rural people's impoverished economic situations and environmental degradation, which have forced them to reside in slum areas. It is being enhanced owing to not only climate change but also rapid industrialisation, which is related to productivity, employment, and urban growth. However, rapid urbanisation process has already faced several problems, such as poverty, unemployment, environmental degradation, and a lack of living infrastructure (Williams et al., 2019). Rapid urban population growth has resulted in informal settlements in slum areas. According to UN-Habitat (2018), there are about 1 billion poor people who live in slums. Without basic necessities, millions of urban slum dwellers in the country continue to suffer for a prolonged period of time. Without effective policies, the quality of life of vulnerable groups is not secure. Rapid urbanisation has been a major concern in recent decades, particularly in developing nations like Bangladesh. The rapid urbanisation of Bangladesh has driven the country to become one of the world's five fastest expanding economies (World Bank, 2019).

Informal settlements of the urban poor are particularly vulnerable to variability and high exposure to climate risks, with a lower adaptive capacity of livelihood factors in South Asian countries, such as Bangladesh, India, Pakistan, and Nepal (Giri et al., 2021). Consequently, Bangladesh's infrastructure development has lagged behind this urbanisation, resulting in the fast expansion of slums and informal squatter communities. Climate-affected people are informally settling in the two largest cities in Bangladesh, Dhaka and Chittagong



(Uddin, 2018). In addition, many climate-impacted people are seeking refuge in informal settlements in Dhaka's Korail neighbourhood owing to poverty and frequent natural disasters (Birtchnell et al., 2019).

Inhabitants of informal settlements struggle with inadequate drinking water, lack of sanitation, power and gas, and proper drainage system. (Satterthwaite et al., 2020). Furthermore, inefficient expansion of urban areas and urban population growth have put pressure on basic utility and environmental issues that which has impinged biodiversity across the cities. GHG emissions have been increasing due to rapid growth of population and their carbon emission activities.

## Is Informal Settlement Challenges to Sustainable Urban Development in Bangladesh?

Informal settlements are exposed to high levels of vulnerability in urban areas, which has a negative impact on sustainable development. Informal settlements in the cities are no exception. Urban slum communities have developed living conditions based on the assets of Community Development Committees (CDC). UNDP and Khulna city corporations have jointly adopted CDC programs that address reducing climate change vulnerability and improving the poverty level of slums (Hossain & Rahman, 2020). Similarly, community-driven development programs have a dominant poverty reduction function in Rajshahi, Bangladesh (Walters, 2018). The urban partnership for poverty reduction project (UPPRP) is being undertaken for slum improvement and socioeconomic condition improvement in Korail, Bangladesh (Degert et al., 2016). Furthermore, government-led social safety net programs are contributing to address the poverty and vulnerability situation in these settlements.

It has been demonstrated that there is an interlinkage between climate-induced migration and urban informal settlements in Bangladesh. Rural livelihoods in coastal areas are affected by environmental degradation and are informally settled in urban areas in Bangladesh. This study reveals a series of critical factors that are required for designing and implementing interventions to address challenges of climate change adaptation, sustainable formal settlements, poverty alleviation, and ensuring public services for slum inhabitants in Bangladesh; instead of the typically used determinants of poverty and slum dwellers' livelihoods. In various informal settlements of Bangladesh, the government should take an initiative to mobilise the community and provide basic quality health care and public services for sustainable urban development.

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# Making the Most of Market Access in China: What Needs to be Done?

*Abdur Razzaque*

## Background

China has emerged as a global economic powerhouse, having achieved remarkable transformations in its economy; and in the process of becoming the world's largest exporter. With a GDP of about \$20 trillion, China is the world's second-biggest economy. When GDP is measured in purchasing power parity terms, China has already become the largest economy in the world. China is now the second-largest importer of merchandise goods with a market of \$2.7 trillion.

In over 100 cities, China has more than one million residents with considerable purchasing power. The country is set to be the world's most crowded retail marketplace very soon. In addition, its 700 million-strong online community is the largest globally. A large majority of Chinese consumers demand high-quality goods. Also, China is the centre of the globe's supply chains in manufacturing. Partnering with Chinese companies can therefore provide access to funding, new markets, and cutting-edge technologies. Since 2021, China has provided Bangladesh duty-free market access in almost 98 per cent of tariff lines. Prior to that, Bangladesh used to get similar market access in 61 per cent of Chinese tariff lines. Nevertheless, Bangladesh's exports to China have seen setbacks coinciding with the Covid-19 outbreak. After reaching a peak of \$950 million, exports to China fell to \$680 million in FY21. China accounts for less than 2 per cent of Bangladesh's total exports. This is in sharp contrast to its accounting for about a quarter of Bangladesh's imports. Mostly Bangladesh exports readymade garments, jute and jute products, fish and some basic leather items to China. Bangladesh's share in total Chinese goods import is a minuscule 0.04 per cent. Raising this share to just 1 per cent could lead to \$27 billion worth of additional exports for Bangladesh.

## Why are Bangladesh's exports not picking up?

Despite enjoying duty-free market access, Bangladesh's exports to China are not picking up. There are several reasons for it:

- The imported apparel market in China is quite small: about \$10 billion. This is in comparison with \$180 billion in the EU, and almost \$90 billion in the USA.
- The Chinese domestic market size for clothing is worth \$330 billion, catered by highly competitive domestic manufacturers. Due to the small import market for apparels, it is difficult for Bangladesh to achieve export success based on clothing items only. It is worth noting that China is also the largest exporter of apparel, shipping more than 140 billion worth of garment items in 2021 and capturing almost 30 per cent of the world's apparel market.
- While Bangladesh's export is concentrated on RMGs, China mainly imports electrical machinery and equipment(25% of total imports), mineral fuels(15%), ores, slag, and ash, (10%), mechanical appliances(9%), and plastics(3%). Comparator countries, including India, Malaysia, Myanmar, and Vietnam, have done well in China by diversifying these items.
- Furthermore, other comparator countries, including Cambodia, Lao PDR, Myanmar, the Philippines, and Vietnam, have duty-free access to the Chinese market under ASEAN-China FTA, causing Bangladesh to be less competitive.
- The extended duty-free access was provided in

July 2020 to assess the impact of such preferential coverage as export supply response can take time. Since receiving the extended preferential coverage, the covid-19 pandemic wreaked havoc on global exports. China continues to maintain a zero-covid policy, and as such, no export promotional measures can be undertaken.

- Less integration with retailers and lack of participation in marketing, sales and after-sale services are also major barriers to export success in the Chinese market. Research and Development, design, branding; manufacturing; distribution; marketing; sales, and after-sale services are different stages of the value chain. Bangladesh operates at the manufacturing stage of the value chain. Lower integration with the local agents and retailers, insufficient network on the ground, etc., hamper export promotion.
- Cultural and language barriers have posed a severe challenge in boosting exports. When exporting to China, it is essential to communicate with customers and handle logistics and clearance through Chinese customs in Mandarin.
- China's stringent labeling and packaging regulations are of major concern. The Product Quality Law (2009 Amendment) mandates that labels on products and packaging in China must display confirmation of product quality inspection certification and all labeling requirements in the Chinese language.

## Way Forward for Bangladesh

China will soon overtake the United States to be the largest importing country. Therefore, Bangladesh must recognize the significance of the Chinese market for export success. The points that Bangladesh should take into account are:

Firstly, Bangladesh should consider signing a trade agreement to boost Chinese investment-backed export expansion. Signing a trade agreement with China could help Bangladesh's exports grow faster. As China is a developing country, even without a FTA, there is enormous room for a more productive and meaningful PTA. The trade agreement with China must be complemented with trade and investment facilitation. Under a trade agreement, Bangladesh can negotiate to continue the current market access while opening the Bangladeshi market with a longer implementation period. A GTAP based simulation shows that a Bangladesh-China FTA might enhance Bangladesh's exports by about a quarter. It would quadruple if the FTA is supported by 10 per cent trade facilitation.

A trade agreement also promotes business-to-business (B2B) and government-to-government (G2G) collaborations. This will create an opportunity to engage with Chinese businesses to invest in Bangladesh. China has a high interest in diversifying its production and supply

chain; and so Chinese investors can significantly increase the profit margins by taking advantage of the low cost of labour and potentially the large-scale supply capacity. Bangladesh is a country that can offer economies of scale in production, given its large labour force. As a part of the trade agreement, China can therefore consider Bangladesh as a regional manufacturing hub to supply to other markets. By investing in Bangladesh, China can even make use of the duty-free market access in Canada, the EU, the UK and other export destinations.

Secondly, Bangladesh should consider joining the Regional Comprehensive Economic Partnership (RCEP), which can be an alternative to an FTA with China. The RCEP, being the largest trade block, can help Bangladesh promote export and welfare by trade and investment facilitation. Results from GTAP simulation suggests that Bangladesh's overall exports could increase by 20 per cent by joining RCEP.

Thirdly, Bangladesh can adopt aggressive export promotion strategies targeting the Chinese market. Setting up export pavilions in China (Vietnam and other comparable countries have pavilions in China), forging business-to-business (B2B) collaborations, engaging Bangladesh Embassy in China in export promotions, and establishing links with retailers are some of the strategies Bangladesh can deploy. Additionally, Bangladesh can participate in and host trade fairs with the government's support.

***“Bangladesh must expand its export beyond garments, paying special attention to other sectors including electric machinery & equipment, plastic, leather items, footwear, iron and steel based manufacturing. This will not only boost overall export, but will also improve production capacity.”***

## Concluding Remarks

Traditional LDC-style duty-free market access alone will not be enough to promote exports to China. A trade agreement can help boost investment-backed export promotion. To stimulate the supply response, Bangladesh must attract Chinese investment. Bangladesh must develop an export development and promotion strategy targeting the Chinese market. Due to the growing geopolitical competition, China must also diversify its supply networks. With the support of Chinese finance, Bangladesh must expand its product line beyond apparel paying special attention to developing export supply capacities in electric machinery & equipment, plastic, leather items, footwear, iron and steel based manufacturing. Bangladesh could also take additional measures to increase exports to China. For export success in China, aggressive export promoting activities, building a solid B2B linkage, establishing a local presence, participating in online sales etc., can help tremendously.

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***“Bangladesh must develop an export development and promotion strategy targeting the Chinese market.”***

# IPEF: Prospects for the Region and Implications for Bangladesh

*Rasheeq Ahmed*

The Indo-Pacific Economic Framework for Prosperity (IPEF) is an economic initiative introduced by United States President Joe Biden in Tokyo on May 23, 2022. Originally launched with 13 nations, the Framework was later joined by Fiji with an open invitation to join at any time. The grouping represents about 40 per cent of global GDP which includes 7 out of 10 members of ASEAN, all four Quadrilateral Security Dialogue (QSD) countries, and New Zealand.

The IPEF seeks to strengthen economic partnership amongst participating countries with the objective of cooperation, stability, prosperity, development, and peace in the Indo-Pacific region (The White House, 2022). The US-led framework is seen as a counter to China's 'Regional Comprehensive Economic Partnership (RCEP)' in the Asia-Pacific region. However, the RCEP is a free trade agreement among 14 nations focused on reducing tariffs and red tape. IPEF is focused more on labour, environment protectionism, and anti-corruption commitments with an incentive for investment

## **Context of Changing US Strategy: From Trans-Pacific Partnership (TPP) to Indo-Pacific Economic Framework (IPEF)**

Home to 60 per cent of the world population, The Indo-Pacific Region is a hotspot for economic activity and growth with an extreme need for infrastructure investment estimated at around \$26 Trillion between 2016 and 2030. With a vested interest in this region, the US tried to influence this future growth through an ambitious multilateral trade agreement, Trans-Pacific Partnership (TPP). However, With the US withdrawal from TPP by then president Donald Trump in 2017, TPP

morphed into Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) under Japan, one of the largest trade-bloc in the world (Tan, 2022).

The current US administration has designed the framework for multilateral talks based on what could reasonably be achieved with a deeply divided congress. By being a non-trade agreement, such a framework has reduced value. Without free market access, The IPEF cannot be compared to RCEP or CPPTP. It is more focused on flexibility and policy adoption. IPEF can be seen as the US attempt to restore influence in the region with a credible and reliable economic strategy instead of just a military and political one.

### **Four negotiating pillars of IPEF**

The Indo-Pacific Economic Framework is designed to introduce new regulatory baselines in the region. The Initiative is in its early stages, a precursor for later negotiations. The IPEF can produce a wide-range of outcomes depending on the support from different groups of countries on the negotiating table, depending on their interests in each initiative (Goodman et al., 2022). The Framework focuses on four major pillars:

- **Connected Economy:** Trade that will have labour commitments, environment standards, trade facilitation, transparency along with good regulatory practices and corporate accountability will be prioritised. It will also focus on the digital economy and emerging technology with higher standards for cross-border data flows and data localisations.
- **Resilient Economy:** Supply chains that can better anticipate and prevent disruptions like the pandemic by creating a more resilient economy and guard against price spikes through establishing



early warning systems, mapping critical mineral supply chains, improving traceability in key sectors, and coordinating diversification efforts.

- **Clean Economy:** Infrastructure, clean energy, and decarbonisation efforts that will include agreements on renewable energy targets, carbon removal purchasing commitments, energy efficiency standards, and new measures to combat methane emissions.
- **Fair Economy:** Promoting fair competition by enacting and enforcing effective and robust tax, anti-money laundering, and anti-bribery regimes in line with existing multilateral obligations, standards, and agreements by sharing expertise and supporting capacity building to advance accountable and transparent systems.

Some of the initiatives are not breaking new ground such as corporate accountability and anti-money laundering. However, supply chain commitments are a new feature of such multilateral economic dialogue in this region stemming from the unanticipated events over the last few years such as the US-China Trade War, Covid-19 pandemic, and Russia's invasion of Ukraine.

### **The future of IPEF**

The IPEF led by the US can be said to be a soft-law framework that opens the gateway for future possible agreements between US and other Indo-Pacific nations. Unlikely to return to CPTPP, this multilateral framework keeps the door open for the US for future collaborations as well as counterbalancing major Indo-Pacific power China.

Many uncertainties remain regarding the IPEF's future course. The participating nations of IPEF have their own economic interests and political constraints. Many larger economies have already adopted similar standards stated in IPEF. However, small economies like Indonesia and Vietnam have just begun adopting such laws. Outliers like India have long resisted multilateralism and Fiji shares little in common with other participating nations. Despite the diversity in legislation, ability, and willingness, IPEF has the capability to integrate these standards.

The IPEF can potentially change the flow of trade and investment in the region with integrated regulatory standards and a resilient supply chain. These commitments could take on the form of a newly centralised institution, or loosely structured working group amongst governments. Developed countries could pursue a more centralised institution provided competitive edge and protection from disruptions (Pitman, 2022). Despite benefits from such institutions, developing countries may resist regulatory compliance and enforcement, especially on labour, environment, and corporate accountability standards. This may make or break the core foundation of IPEF's agreements.

The IPEF's signature achievement would be to form digital economy regulations. If reached consensus, it can promote trade and investment by lowering business costs. However, issues like cross-border data flows and data localisation, online privacy, and ethics of AI are political minefields. While some countries with US export interests might pursue talks on the matter, a majority of the IPEF countries do not share US interests in this regard.

The IPEF goal of clean energy and decarbonisation could create a difference among developed and developing countries. Despite the less certain impacts of initiatives in the supply chain, digital economy, and clean energy, the objectives of IPEF reflect a broad array of interests from the participating countries. With the commitment towards reaching agreements, it may change how businesses work in this region by bringing in new trade and investment

### **Promise and perils for Bangladesh**

The IPEF could potentially form new regulatory baselines in the region. Businesses will likely need to conform to the new compliance standards for continued operations in IPEF nations (Pitman, 2022). New contracts, trade and investments would require adoption of standards that could affect economic aspirations and the feasibility of new trade agreements for Bangladesh.

With LDC graduation in 2026, bilateral and multilateral agreements have become ever more important for Bangladesh. With current emerging variables, Bangladesh is likely to take a wait-and-see approach to IPEF. However, it could be an opportunity to advance Infrastructure and renewable energy production using investments from IPEF in clean energy and decarbonisation. Bangladesh also needs to accelerate the timeline for agreements with IPEF countries focused on the proposed reforms. The government could launch a study on the possible impacts of IPEF on bilateral and multilateral agreements in the Indo-Pacific Region.

Bangladesh is facing new challenges with rising inflation and geopolitical uncertainty as China-US tension and Ukraine-Russia conflict continues. Considering Indo-Pacific power play between US, China, and India, Bangladesh needs to be careful in possible negotiations for IPEF considering repercussions from China. Bangladesh needs to pursue such an agreement with prudent strategy and maneuvering.

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***“The IPEF can potentially change the flow of trade and investment in the region with integrated regulatory standards and a resilient supply chain.”***

# Is Data Localisation Economically Pragmatic for Bangladesh?

*M Abu Eusuf & Jillur Rahman*

Bangladesh's Information and Communication Technology (ICT) sector has shown phenomenal annual growth after the launch of the Digital Bangladesh initiative in 2010. The ICT, marked as a thrust sector, with high growth opportunities, job creation, and positive spill-over effects on other sectors, has become instrumental in continuing robust economic growth. Therefore, the Digital Bangladesh initiative has now been extended further under Vision 2041, with the enhancement of the ICT sector and the use of effective technology for socioeconomic development

In the era of the Fourth Industrial Revolution, digital trade has taken a central role around the world, facilitated by the free flow of cross-border data and digitalisation. With six out of 10 people worldwide utilising the internet, the world today is more connected than ever, resulting in enormous data flows. This link is expected to expand further. Increased internet penetration and the emergence of IT-enabled services (IT-es) are dramatically changing how people live, work, trade, communicate, and practically do everything else, eventually boosting cross-border data flows (CBDF). Such flows generate the potential for capturing new markets without the need to physically enter them, enabling small companies to reach out to potential clients all around the world by using internet platforms such as eBay or Alibaba.

According to industry experts, Bangladesh is projected to see a rise in CBDF because of the growing use of IT-enabled services and the expansion of electronic commerce (e-commerce) in the country. This signifies that the influence of policies facilitating CBDF is not limited to the technology sector but also impacts traditional industries. As a result of digital transformation facilitating simpler global trade, new business models have emerged that increasingly rely on data. This has

resulted in the creation of new risks related to data misuse. Several governments, including Bangladesh, are considering data protection and restriction policies. Such rules govern the usage of data, including data privacy and security. Measures under consideration include data localisation, restricting data transfers outside the country and conditional flow regime, and imposing constraints on data flow, storage, and processing.

The Bangladesh government is gradually adopting data governance through laws such as the Digital Security Act of 2018 and the Information and Communication Technology Act of 2018. The Data Protection Act is currently being prepared. The Act aims to protect personal data in terms of life, property, freedom of opinion, speech, and conscience, as well as the right to privacy, secrecy, and personal identification. While this law will serve as a formal basis for the country's data protection and privacy and incorporate the rights of users. It includes data localisation provisions that require data controllers to store sensitive, classified and user-generated data within Bangladesh. Such restrictions may negatively affect trade and productivity. It is imperative to assess the potential and issues posed by CBDF regulations.

Concerns about the localisation efforts increasing the hazards of cyber-attacks, privacy violations, data breaches, and reducing the breadth of services provided, and swelling the operating expenses of enterprises are also there. On the other hand, localisation is perceived to enhance data privacy and security, which is vital. However, such perceptions are contestable.

Any lop-sided regulatory position with CBDF could be damaging to Bangladesh's ICT sector as the present



infrastructure and human capital are not aligned with the requirements of data localisation.

A study undertaken by the Research and Policy Integration for Development has evaluated the impact of CBDF restrictions on Bangladesh's digital services exports and the economy. Primarily, two scenarios were considered: Bangladesh adopting more restrictive CBDF policies akin to those of India and adopting substantially restrictive CBDF policies comparable to those of Vietnam. The two countries were selected because they are in the Asian region, and their data localisation and data protection policies are regularly discussed in the policy and public sphere. The objective of this analysis is to provide a directional view, therefore, assessing all policy alternatives against the likely outcomes.

The study used a gravity modelling framework to estimate the impact of the given scenarios. According to the analyses, CBDF restrictions are likely to have a negative impact on digital service exports. Estimates show that Bangladesh's digital services exports could fall by 29 per cent and 38 per cent if it imposes limitations like India and Vietnam, respectively.

Similarly, to understand the effects of the impact of CBDF restrictions on the economy, another exercise was undertaken. It shows the existence of a positive relation between digital services exports and the GDP, meaning that digital service exports make a significant contribution to the economy.

It is found that Bangladesh's GDP could decline by 0.58 per cent as a result of CBDF restrictions, akin to those in India, on digital services exports. A more restrictive policy similar to that of Vietnam could cause the GDP to fall by 0.76 per cent. Similar retaliatory actions by trading partners may cause the GDP to fall further.

The reduction in GDP could adversely impact employment, investment, and innovation growth in Bangladesh. Although the econometric model provides evidence of the significant adverse impact of data restriction on digital exports and the economy, some possess the view that such restriction on data could improve productivity and exports in the long run.

Therefore, it is imperative for Bangladesh to judiciously navigate the digital fields, carefully assessing the local and global impacts of potential rules and regulations related to data flows and streamlining such laws to the country's current scenario so that socioeconomic development is not hindered.

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***“It is imperative for Bangladesh to judiciously navigate the digital fields, carefully assessing the local and global impacts of potential rules and regulations related to data flows and streamlining such laws to the country's current scenario so that socioeconomic development is not hindered.”***

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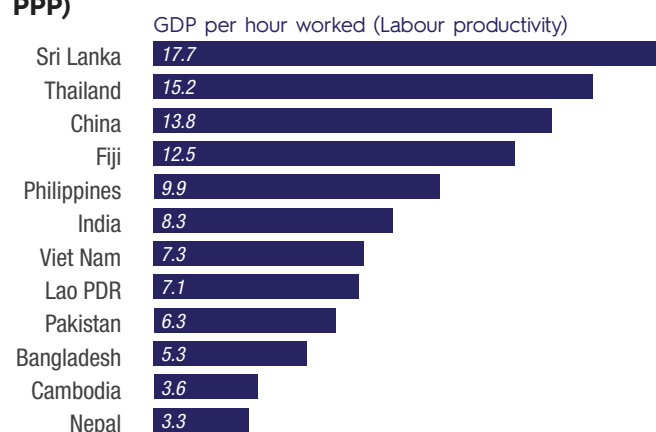
# Productivity and Working Poor in Bangladesh

*Mohammad Nazmul Avi Hossain*

While evaluating Bangladesh's labour market, often the focus is solely on the unemployment rate, which over the past two decades has been mostly in the range of 3-4 per cent. This is comparable to the so-called Natural Rate of Unemployment in the context of more matured and developed economies. Due to the definition and methods used, open unemployment rates in developing countries can appear quite low. According to the Bangladesh Bureau of Statistics (BBS), the "unemployed" comprises the people in the labour force who during the reference period are: (a) without work - not in paid employment nor self-employed, (b) currently available for work, and (c) seeking work either paid employment or self-employment. Therefore, the unemployment rate in Bangladesh over the past two decades is not an alarming labour market problem. In an economy where about 86 per cent of the workforce is in the informal sector, it is not that difficult to get involved in low-productive economic activities. As a result, only a few get captured as unemployed.<sup>1</sup> Challenges lie in getting decent work opportunities, earning reasonable wages induced by higher levels of productivity. So, what needs to be investigated more closely to better understand labour market performance of Bangladesh considering that the country is about to leave behind the LDC status and soon become a middle-income country? Labour productivity and working poor can be two more meaningful indicators. The policymakers and development efforts should align labour market performance with these two critical indicators, alongside stylized tools such as unemployment rate, Not in Education, Employment or Training (NEET), youth unemployment rate, and female labour force participation.

To further explain the labour productivity of Bangladesh, an analysis was done from which it became evident that the country is one of the lowest among countries with GDP per capita growth rate of over 6 per cent. In the government's Productivity Master Plan for 2021-2030, Bangladesh intends to keep pace with the countries of Asian Productivity Organisation (APO). (Figure 1) shows that Bangladesh is among the bottom three in the APO, with Cambodia and Nepal behind. The National Productivity Organisation's (NPO's), Productivity Master Plan 2021-2030 considers Sri Lanka and India as the reference framework for improving labour productivity, but both countries are currently far ahead of Bangladesh. Looking at the labour productivity trends of countries with similar socioeconomic profiles, it was found out that Bangladesh is at the lowest level for a decade.

**Figure 1: GDP per hour worked/Labour Productivity as of 2021 (GDP constant 2017 international \$ at PPP)**



Source: ILO STAT (2022).

<sup>1</sup>An unemployed person is without a job during a given week; available to start a job within the next two weeks; actively having sought employment at some time during the last four weeks or has already found a job that starts within the next three months (ILO).

Where labour productivity is only a part of the story, the productivity ecosystem at the firm and enterprise level is the handbook for higher economic growth and inclusive development in Bangladesh. SMEs and MSMEs are the fuel of the local economy as they account for a large share of (mostly informal) employment where productivity enhancement stands out as a major constraint for the growth of enterprises. To comprehend more on the productivity ecosystem, in the era of 4IR and technological transformation, it is crucial to study how multifactor productivity affects growth at the firm level in combination with labour and capital. (Comin and Mestieri, 2018), for example, estimate that differences in technology adoption at the firm level account for up to 75 per cent of the income gap between advanced economies and developing countries. Developing capabilities to maximize growth opportunities arising from technological changes requires the right mix of worker skills, management practices, innovation, training, and supporting infrastructure. (Bloom et al., 2007), found a strong positive correlation between management practices and firms' performance in a cross-country study of 6000 firms from 16 countries. Several other empirical studies have provided evidence that the following factors affect the productivity of SMEs and microenterprises in developing countries:

- Age of the firm;
- Organisational form of the firm (i.e. incorporated companies, firms with only one establishment, and firms with only one proprietary);
- Labour productivity;
- Level of unionization in the industry and size; The business cycle of the sector;
- The level of formality of the firm

Why should policymakers pay close attention to the productivity ecosystem to improve macroeconomic outcomes associated with labour market outcomes? For two reasons. First, if productivity is not increased, Bangladesh risks falling into the middle-income trap. Second, with lower productivity levels, there will be more and more working poor in the country. The key issues that policymakers should address are:

- How can a productivity ecosystem benefit the demographic dividend or landscape of a country?
- How will an improved productivity ecosystem influence the increase of active labour force participation and help create more decent job opportunities?

However, implementing the right policies and tools to improve the productivity ecosystem does not necessarily lead to similar positive outcomes. (Acemoglu et al., 2011), analysed cross-country and intra-country differences in labour productivity and showed the following significant results with solid empirical evidence:

- Human capital of the workforce will differ across countries and within countries, in part, because of differences in institutions and policies that affect access to schooling and the costs and benefits of acquiring a marginal unit of education.

Technological know-how will potentially vary at the national level, thus influencing cross-national income differences. Besides the low level of productivity, Bangladesh has been facing a declining and negative real wage growth rate since the last decade. In 2021, the average annual real wage growth rate in Bangladesh was -5.9 per cent, the lowest among all countries in the Asia-Pacific region and also one of the lowest in the world. The opposing trends in real wage growth and labour productivity have several socioeconomic consequences: Brain drain, increase in the working poor, and eventually a decline in productivity and competitiveness; which can lead to a downward spiral of low productivity, low wages, and low competitiveness. If this trend of real wage growth continues to be negative and declining, there will be a surge in the working poor with lower purchasing power, leading to lower levels of economic output, and greater inequality.

Bangladesh should focus more on these "two big elephants in the room" of the labour market; productivity and the working poor- to study labour market outcomes on the way to becoming a middle-income country. The unemployment rate, labour force participation rate, and NEET are still the key indicators, but they can contribute "de facto" to more effective policy analysis for better socioeconomic outcomes.

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# Does the Social Safety Net Budget Prioritise Marginalised People?

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## Background

During this crisis period, the budget focus should have been given to taming the inflation rate and extending social safety net programs (SSNPs) to protect the vulnerable group of people from various types of economic and social hardships. Since Bangladesh has been witnessing one of the highest inflation rates during the budget proposal period, the budget should have considered the effects of high inflation on people and their livelihoods. Regrettably, the budget did not take into account the effects of high inflation on people and their livelihoods. The government reduced allocation for the social safety net rather than increasing it in light of existing high inflationary pressures and an increase in the number of poor following the Covid outbreak.

## Allocation for Social Safety Net Programme in the National Budget 2022-23

The national budget 2022-23 has taken place in the wake of an unprecedented economic crisis all over the world. The post-pandemic economic recovery has come under tremendous pressure due to the disruption in the global supply of goods and services, on the other hand, the Russia-Ukraine war has made the overall situation out of control. According to the International Monetary Fund (IMF), global growth is anticipated to slow from 6.1 per cent in 2021 to 3.6 per cent in 2022. Rising price of edible oil, wheat, fodder, and fuel oil have left low and middle-income people in dire straits as a result of instability in the international supply chain. Consequently, the poor are the most vulnerable to the current economic crisis. Therefore, it

has been emphasized that governments must come up with policies that will revitalize the economy and save people from poverty and deprivation.

In the national budget 2022-23, the finance minister allocated Taka 1,13,576 crore for reinforcing the social safety net programme, which is 2.55 per cent of the country's gross domestic product (GDP) and 16.75 per cent of the total budget. Unfortunately, this is less than the revised budget FY2021-22, which allocates 18.78 per cent to the social safety net.

**Table 1: Increased allocation for the social safety net programmes**

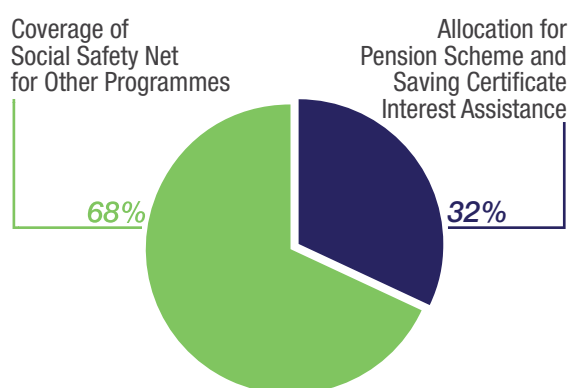
Name of the Social Safety Net Programme	RBFY22 (BDT crore)	PBFY23 (BDT crore)	% Change
Allowances for the financially insolvent disabled	1820	2429.18	33.5%
Mother and child benefit program	1041.04	1243.07	19.4%
Honorarium for heroic freedom fighter	4603.35	4653.35	1.1%
Medical treatment and honorarium of martyred families and war wounded heroic freedom fighters	456.66	472.45	3.5%
Pension for retired government employees and their families	23010	28037	21.8%
Housing construction project for the insolvent freedom fighters	481.9	761.83	58.1%

Source: Budget Speech 2022-2023.  
Note: RB = revised budget; PB = proposed budget.

In the national budget 2022-23, the government has increased allocation to provide support to marginalised people. Specifically, the quantity of allocation and number of beneficiaries for financially insolvent disabled people has increased. It is observed that the number of beneficiaries for disabled people has increased from 3.57 lakh to 23.65 lakh, up from 20.8 lakh. The monthly allowance has been raised by Tk 100 from 750 to 850. Under the “Mother and Child Benefit program”, the number of beneficiaries increased by 2 lakh 9 thousand, thus the total number of beneficiaries will be 12 lakh 54 thousand in FY2022-2023 from 10 lakh 45 thousand in FY2021-2022. The total allocation for this programme in FY2022-2023 is Tk. 1,243 crore and such initiatives are praiseworthy to bring the eligible people under the social safety net programme.

However, prioritizing two to three programmes have raised questions, particularly among those who are implementing the programmes on the ground.

**Figure 1: Allocation to the Social Safety Net Programme**



Under the social safety net programme 32 per cent of total allocation has been given to the “Pension for Retired Government Employees and their Families” and “Saving Certificate Interest Assistance” which amounts Taka 35,945 crore. Currently, there are 115 projects under this social safety net programmes where the government is spending 32 per cent of total allocation for the two programmes whereas the remaining portion is being spent on other 113 programmes. However, if the government employees’ pension schemes, saving certificate interest assistance under the social safety net programme are calculated separately, then the allocation for direct food and finance for the unprivileged and marginal group becomes much less. Moreover, while someone is being included in the programme, then he/she is getting very little in portion to the need which is a long-term vicious circle in the history of social safety net programmes in Bangladesh. Consequently, a large number of people cannot be covered with the inadequate allocation of allowance. As discussed, the grim situation persists for most of the allowance recipients of social safety net programmes, specifically low income and, haor and coastal areas people/ population.

## Inadequate Allocation for Food Security, Haor, and Coastal Areas

In the post-COVID-19 context, the government has scaled up many food security and employment generation programmes to provide support to marginalised people. Sadly, the allocation for such programmes has decreased. In the FY 2022-23, the allocation for “Food friendly program”, “Open Market Sales” have decreased by 10 per cent and 11.5 per cent respectively. Due to lack of authentic data, mismanagement of scarce resources, nepotism, lack of coordination among the ministries, and weak implementation capacity, a large number of eligible people are still out of the coverage of the social safety net programme.

**Table 2: Decreased allocation for the social safety net programmes**

Name of the Social Safety Net Programme	RBFY22 (BDT Crore)	PBFY23 (BDT crore)	% Change
Open Market Sales (OMS)	1943.58	1720	-11.50
Relief works (flood, drought, cyclone, and others)	181.00	81.00	-55.25
Infrastructure and livelihood improvement in haor and coastal area	151.55	70.55	-53.45
Flood management and livelihood improvement project in char/haor area	122.67	86.23	-29.71
Construction of flood shelter in the flood and river erosion prone area	385.00	290.00	-24.68
Poverty reduction of marginalized population and ensuring employment of the extreme poor in northern areas/ production and marketing of nutritious high-value cereals	140.46	106.41	-24.68

Source: Budget Speech 2022-2023.  
Note: RB = revised budget, PB = proposed budget.

In addition, the annual impact of climate disasters such as heavy rains and floods before the current season has caused a crisis of livelihood and financial loss to the farmers and working people. In this context, while medium and long-term social security strategies were required to get rid of this critical situation, the allocation for “Relief Works”, “Infrastructure and livelihood Improvement in Haor and Coastal Area”, “Flood Management and Livelihood Improvement Project in Char / Haor Area” have been decreased by 55.25 per cent, 53.45 per cent, and 29.71 per cent respectively in the fiscal year 2022-23. Given the nature of the crisis, such food security and relief work programmes should be scaled up to provide support to the marginalised people.



## Conclusion

Needless to say, there will be no qualitative change in the current situation unless a right-based universal social protection scheme is introduced by moving away from the conventional project-based social security programme. Since the economy is growing, it is expected that there will be a dramatic change in the need and demand for social security programmes. Hence, necessary policy actions should be taken to strengthen the country's social protection system to adapt to evolving circumstances. The scope of social security strategy needs to be expanded to cover the issues related to social insurance and employment regulations. To get out of this, a right-based policy framework is required to be introduced then no eligible individual will be systematically excluded from the given support.

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***“Food security and relief work programmes should be scaled up to provide support to the marginalised people.”***

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