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The challenge of poverty reduction is made tougher by crises of some form or the other (e.g., those resulting from economic turmoil, armed conflicts or natural calamities) which tend to aggravate the poverty situation. Special attention, therefore, needs to be devoted to countries emerging from crises of various types.

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**Issues in Employment and Poverty**

**Discussion Paper**

**17**

**Employment Route to Poverty Reduction in  
Bangladesh: Role of Self-Employment  
and Wage Employment**

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## Preface

The experience of countries that succeeded in reducing poverty significantly indicates that, although essential, economic growth is not a sufficient condition for poverty reduction. Employment serves as a key link between growth and poverty reduction. In view of the importance of productive employment as a route out of poverty, the ILO and SIDA are collaborating in undertaking a series of studies to examine the linkage between economic growth, employment and poverty reduction. The main purpose of these studies is to contribute to an understanding of the linkage mentioned above, and to the identification of policies that could be used to engender higher rates of economic growth and employment generation, and thus achieve a faster reduction in poverty.

The first phase of the series demonstrated that an employment-intensive growth strategy, accompanied by a rise in productivity, is key to reducing the level of poverty. The second phase of the series comprises more in-depth examination of the growth, employment and poverty nexus including an analysis of factors determining the ability of the poor to integrate into the process of economic growth and benefit from it.

The present paper is a follow-up to an earlier study on linkages between economic growth, employment and poverty in Bangladesh. Earlier findings showed that despite comparatively higher rates of poverty reduction as a result of higher economic growth achieved by Bangladesh in the 1990s as opposed to the 1980s, growth could have been more pro-poor, given that employment-intensity of growth declined and income distribution worsened during the 90s.

Specific conclusions drawn from the previous study provide a basis or context from which to better understand the relevance of analysing different routes to employment creation as a means for pro-poor growth in Bangladesh. The earlier study showed that (i) wage workers are more prone to poverty than the self-employed, and that is reflected in the lower hourly earnings of the former, (ii) the average return from self-employment is much lower for the poor than the non-poor group, implying that the nature of self-employment in which the poor are engaged is different from that of the non-poor, and (iii) education is an important factor in determining the probability of a household being poor.

The objective of the present study is to further explore the issues and dynamics of the employment route in achieving poverty reduction with a special focus on both macro and micro level issues related to the quantity and quality of employment and earnings, with an emphasis on gender dimensions. The author examines the determinants of employment and earnings of the labour force from poor and non-poor households, asking specifically what determines the choice of the type of employment (i.e. wage-employment vs. self-employment), why the poor can't enter more remunerative self-employment of the type in which the non-poor people are engaged and how education and skill development can help improve the ability of the poor to better integrate themselves into the growing economy. The present paper attempts to answer these questions through detailed empirical analysis of household (and individual) level data of the latest Labour Force Survey round by the Bangladesh Bureau of Statistics (conducted during 1999-2000).

Major findings of the paper illustrate that the wage rate and earnings of workers are determined by productivity and in turn by quality of labour, where productivity of labour depends on skill and educational qualifications. Discussion on the determinants of

wage variations focus on two aspects: first, the sectoral variation of wage rate and second, factors affecting individual wage variation. Those in wage employment face higher chances of being poor due to two reasons: first, most of the wage earners are employed in agriculture where the wage rate is the lowest and second, average wage rate is much lower than the average return to self-employment in any activity. The agricultural wage rate is not only lower than manufacturing wage rate, but had grown at a slower rate contributing to urban-rural disparity in poverty. As expected, personal endowment was found to have a positive impact on wage rates, especially for urban workers. Therefore, better-educated workers tend to migrate to urban areas.

Rural non-farm self-employment was found to be an important mechanism for improvement of income of those closer to the poverty threshold, and yet, overall employment generation in that sector is limited. Rural non-farm activities are differentiated into dynamic and high productivity sectors versus lagging and marginal activities whereby poverty-related factors influence the prospects of self-employment, both in terms of entry and income levels generated by such activities. Poorer households usually engage in the marginal and less dynamic ones due to a lack of access to human and physical capital. Findings also show that the success of self-employment depends on the overall economic environment in an area, the infrastructural facility and proximity to cities.

The final section of the paper provides detailed employment and labour market policies aimed at accelerating poverty reduction in Bangladesh. These include an emphasis on promotion of entrepreneurship and enterprises at the local level that could generate employment for wage workers, the protection of workers rights, especially in the case of employment of vulnerable groups, e.g. young unmarried women, and lastly, training and skill generation in the medium and long term.

Funding provided by SIDA for this study (and other studies in this series) is thankfully acknowledged. Thanks are due, in particular to Dr. Per Ronnas, Chief Economist, SIDA who plays a key role in this collaborative project.

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# Chapter 1

## Introduction

### 1.1 Background

During the 1990s, 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 unutilized 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 reducing poverty 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 analysis. The study will examine determinants of employment and earnings of labour force from poor and non-poor households and arrive at policy suggestions for targeted interventions for various sections of the labour market.

This is a follow-up to an earlier study (Rahman and Islam 2003) on linkages between economic growth, employment and poverty in Bangladesh and explores further the use of the employment route in attaining pro-poor growth. The present study uses a few important findings emerging from the earlier one as a starting point and it may be useful to start by recapitulating some of them. On the whole, higher economic growth achieved by Bangladesh in the 1990s did help the country in attaining higher rates of poverty reduction compared to the earlier decade. However, growth could be more pro-poor, given the facts that employment-intensity of growth declined and income distribution worsened during the period of higher growth. Specific findings that would be relevant from the point of pro-poor growth include (i) wage workers are more prone to poverty than the self-employed, and that is reflected in the lower hourly earnings of the former, (ii) the average returns from self-employment is much lower for the poor than the non-poor group, implying that the nature of self-employment in which the poor are engaged is different from that of the non-poor, and (iii) education is an important factor in determining the probability of a household being poor.

Given the above-mentioned features of poverty in Bangladesh, the questions that motivated the present study include the following:

- What determines the choice of the type of employment (i.e., wage-employment vs. self-employment)?
- What contributes 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 non-poor people are engaged?
- How can education and skill development help in improving the ability of the poor to better integrate themselves into the growing economy?

The present paper provides detailed empirical analysis of the issues mentioned above. In doing so, the paper goes beyond an examination of data pertaining to the poor as a whole and provides gender-disaggregated analysis. Another important aspect of the paper is that it touches on problems faced by the lower end of the poor as well.

For an understanding of the relevance of employment growth for poverty reduction, both quantity of employment and its quality require closer attention. This requires special focus on both macro and micro level issues related to employment and earnings. The objective of the study is to combine such macro and micro level analysis, so as to provide insights into general policies for pro-poor growth process and directions for specific programmes to ensure more employment and better remunerative employment for the poorer sections of the labour force. The macro level discussion, especially the trends of employment growth, un and underemployment and changes in the types (status and sector) of employment will throw light on the areas of progress (and the reverse) and can identify groups facing disadvantage in the labour market. This will then be supplemented by micro level analysis and case studies of individuals within these disadvantaged groups. Individual and household level analysis will throw light on the causes of disadvantages faced by certain groups.

A number of special features characterize the labour markets of developing countries like Bangladesh. Predominance of informal employment and self-employment leads to special strategies of income enhancement among the poor. Such strategies involve diversification of types of employment, sector of employment and location of employment. The present study focusing on employment policy, will therefore, examine the determinants of success in both wage employment and self-employment. Despite significant regional mobility of labour, urban and rural labour markets display distinct features and deserve separate analysis and policy support. Most parts of the paper have undertaken such disaggregated data analysis.

An outline of the components of the study is presented in section 1.2.

## **1.2 An outline of the study**

### **i) Assessment of the changes in the structure and quality of labour force**

Changes in the growth of labour force during the 1990's will be examined in chapter 2. Growth of employment, and changes of labour force participation rate (LFPR) disaggregated by gender will be analysed. 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/under employment 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- and under employment) and second, the wage rates and the returns from self-employment. The present study will provide in-depth analysis of both issues (chapters 4 to 8).

**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**

Even though unemployment and underemployment can affect both wage employed and self-employed labour force and cause wastage of valuable human resource, 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 through its influence on bargaining power. All 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 to 8.

**v) Wage rates: trends and determinants**

Determinants of wage rate and its trend can throw light on the processes through which wage employment is linked with poverty. In this respect trends of real wage rate and cross sectional variation of wage rate, both should receive attention (chapter 5).

**vi) Determinants of self-employment and returns to labour**

Factors influencing individual's status of employment (wage employment vs. self-employment) will be examined. The influence of personal and household characteristics, and current poverty and asset situation on the probability of participation in self-employment will be analysed. This will be supplemented by case studies and Focus Group Discussions to highlight the constraints faced by poor households in their entry into self-employment (chapter 6). Analysis of the determinants of returns from self-employment will enable us to identify the limits to poverty alleviation through self-employment. Case studies and regression analysis have been used to analyse the determinants of returns from self-employment (chapter 6).

**vii) Gender dimensions of the linkage between wage employment and poverty**

Gender dimensions are central elements in the analysis of employment and poverty. The male-female difference in composition of employment and the extent of un/underemployment will receive attention in this paper (chapter 7). Differences in scope for being engaged in wage employment and self-employment will help in assessing the link between the processes of feminisation of poverty and their participation in the hired labour market. Scope for improvement of women's employment opportunity as a strategy for poverty reduction will receive attention.

**viii) Education and employment**

The prospects of employment of the school educated youth labour force and especially the prospects of the boys and girls from poor households will be examined (chapter 8). The objective of such analysis is to highlight the role of education in the poverty reduction process.

**ix) Policy suggestions**

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

**1.3 Sources of data**

The study will be based on a number of sources of data:

- (a) Secondary data obtained from various published and unpublished sources and
- (b) Tables from National Labour Force Survey Reports will be used.
- (c) The study will carry out intensive statistical analysis of household (and individual) level data of the latest round of the Labour Force Survey of BBS (conducted during 1999-2000).
- (d) Case studies and findings from Focus Group Discussions (FGD) will supplement the conclusions from the secondary data. FGDs cover male and female labour force members from poor households, young unemployed persons and the less successful cases of self-employment. FGD and case studies were conducted in four areas: Gazipur (a central district), Mymensingh (a northern district), Gaibandha (a north western district), and Dhaka city.

## Chapter 2

### Growth of employment, labour force, and unemployment: The macro picture

#### 2.1 Labour force participation rate and growth of labour force

Labour force participation rates (LFPR) with two cut-off points of age (10 years and 15 + years) have been shown in table 2.1. Data on LFPR among 15 years and above aged population are available for 1990-91 to 1999-2000. LFPR has increased from 51.2 per cent in 1990-91 to 54.9 per cent in 1999-2000. LFPR among men is much higher than among women. Female LFPR has significantly increased during the ten years period, while male LFPR went through a small decline. Similar changes in LFPR are reflected in data for 10 + age population as well.

Data on growth of labour force and employment (table 2.2) show growth rates of labour force during the two halves of nineties. Employment growth has been slightly higher during the second half.

Some recent studies (Salmon 2001, Muqtada 2003) reported trends of employment growth, which stands in contrast to the above observations (decline during the second half). The studies used age ten years and above as the cut off point for labour force and therefore the decline of growth of employment observed in the study might have been due to the decline of employment of child labour achieved through deliberate policies during the later half of the nineteen nineties.<sup>1</sup> 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. In all subsequent analysis, this will be done (as far as possible). This, however, limits the scope of comparison to the period of 1996 to year 2000. Most of the earlier data is not available for 15 + age group.<sup>2</sup>

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 labour force and male employment was much lower during 1996-2000 compared to 1991-96. In contrast, growth of female labour force accelerated from 7.0 per cent per annum during 1991-96 to 14.4 per cent per annum in 1996-2000.

The other feature emerging from table 2.2 is that employment growth and labour force growth are quite close. Self-employment and family employment being the dominant modes of employment, it is likely that those who report as labour force members do so if they have some form of employment. Therefore the decline of male labour force growth is likely to be associated with a decline of employment opportunities.

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

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<sup>1</sup> Rahman (2004c) demonstrated that there had been a reduction of both per cent and number of child workers during the late nineties.

<sup>2</sup> In all subsequent tables, 15+ years has been used as the age cut-off, unless otherwise mentioned.

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 nineties (table 2.4). This may have negative impact on age of marriage and employment. Positive implications of growth of female employment will depend also on the quality of labour force and quality of employment. These aspects will receive attention in the following chapters.

## 2.2 Unemployment and underemployment<sup>3</sup>

Table 2.5 presents open unemployment rates based on the conventional definition. The rates are very low which actually reflects that the conventional definition underestimates unemployment rate in a country like Bangladesh. Underestimation of unemployment may occur because the workers often move out of the labour force during periods of unemployment. Moreover, the overwhelming majority of the labour force is either self-employed or unpaid family workers who do not consider themselves unemployed even if they are without work.

The unemployment rate increased from 3.5 per cent in 1996 to 4.3 per cent in 2000. The unemployment rate had also increased during 1989 to 1996 period.<sup>4</sup> Unemployment rates are higher among women compared to men. Unemployment rates among men and women were 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, men and women with secondary schooling (SSC) and above education who have entered the labour force in larger percentages are more likely to be openly unemployed. Moreover during the decade, the formal labour market expanded when open unemployment is more likely to thrive.

Underemployment rather than open unemployment is more relevant for Bangladesh's labour market. A number of methods have been used for the measurement of underemployment (Krishna 1973, Mehra 1966, Rudra 1973). The most 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 (UER).

Trends of underemployment presented in table 2.6, show that UER has gone through a decline during the last decade. 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 underemployment rate while female underemployment rate increased. Underemployment rate among the female labour force increased by 7.3 percentage points. This is a major concern and will be discussed again in chapter 7. Underemployment rate over the earlier period of 1989 to 1996 also showed a decline (revealed by data in first three columns of table 2.6). Underemployment rate in the urban areas is much lower than in the rural areas (12.2% and 17.8% respectively). In the rural areas, casual employment is prevalent and sharing of family's consumption basket continues to be the tradition and therefore, the underemployed workers may subsist in the rural areas.

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<sup>3</sup> This section and parts of section 8.3 is drawn from Rahman (2003b).

<sup>4</sup> Data for years 1989 and 1991 cannot be directly compared with later years because data for 1989 and 1991 are available only for 10+ age group.

It should be highlighted that underemployment rate among the 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 the male labour force is only 10 per cent.

At this point, another complexity arising from definition of labour force is worth highlighting. The present study uses the 'usual definition' of labour force (although in some tables, data based on 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 2.8 provides underemployment rates based on extended definition. The table shows that underemployment rates in 1999-2000 and 1995-96 were 31.9 and 38.5 per cent respectively compared to 16.6 and 17.6 per cent obtained on the basis of usual definition. Conclusions based on the extended definition can sometimes be misleading.<sup>5</sup> Particularly, the extended definition is likely to include more labour force in self/family employment and less in the paid labour force.

The complexities related to definition must be resolved and future LFS should be based on consistent age cut-off points and 'labour force' criterion, preferably the usual definition. Unemployment and underemployment have been suggested as important indicators of 'Decent Work' (Bescond 2003, and Ghai 2003) and therefore the definitions chosen are relevant for both international comparability and domestic policy choices.

**Table 2.1**

**LFPR in Bangladesh 1989-2000**

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

Note: Usual definition of LFPR 15+ age, calculated from LFS 1991 and LFS 2000.

\* Estimated.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

<sup>5</sup> 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 2002). In contrast to this observation, real wage rate in most sectors have been increasing.

**Table 2.2****Growth rates of labour force and employment (average annual growth rate %)**

Years	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

Note: Usual definition of LFPR 15+ age.

\* Estimated.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 2.3****LFPR among population aged 15 years and over in Bangladesh 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

Note: Usual definition of LFPR 15+ age.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 2.4****Labour force by marital status and sex: 1995-1996, 1999, and 2000**

Marital status*	Year	Both sex %	Male %	Female %
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

Note: Usual definition of LFPR 15+ age.

\* Estimated.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 2.5**

**Unemployment in Bangladesh: 1989 to 2000**

Unemployment rate (%)	1989	1990-91	1995-96	1995-96*		1999-2000*		1999-2000 (a)
	(a)	(a)	(a)	(a)	(b)	(a)	(b)	
<b>Bangladesh</b>								
Total	0.9	1.5	3.4	2.5	3.5	3.3	4.3	3.7
Male	1.0	1.3	2.7	2.7	2.8	3.2	3.4	3.6
Female	0.9	1.8	6.3	2.2	7.1	3.3	7.4	3.8
<b>Urban</b>								
Total	2.3	2.3	-	4.4	4.8	5.3	3.9	-
Male	2.2	1.7	-	4.4	4.4	5.0	2.9	-
Female	3.1	4.4	-	4.3	6.5	6.2	7.6	-
<b>Rural</b>								
Total	0.7	1.3	-	2.1	3.1	2.8	5.8	-
Male	0.8	1.2	-	2.2	2.3	2.8	5.0	-
Female	0.7	1.5	-	1.9	8.3	2.8	8.2	-

'a' are based on extended definition, 'b' on usual definition.

\* are for 15+ age, others for 10+ age.

- not available.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 2.6**

**Underemployment rate in Bangladesh: 1989 to 2000**

Underemployment rate (%)	1989	1990-91	1995-96	1995-96*	1999-2000*
<b>Bangladesh</b>	(a)	(a)	(a)	(b)	(b)
Total	43.4	42.8	34.6	17.6	16.6
Male	15.4	15.7	12.4	13.0	7.4
Female	83.0	85.3	70.7	45.5	52.8
<b>Urban</b>					
Total	21.6	29.7	19.6	17.1	12.2
Male	6.7	18.9	10.0	10.5	4.7
Female	63.6	65.6	44.4	35.3	38.2
<b>Rural</b>					
Total	46.1	45.6	37.9	18.4	17.8
Male	16.8	14.8	13.1	13.7	8.1
Female	84.4	87.2	74.6	49.8	57.7

\* based on 15+ age group, the rest are for 10+ age group.

'a' are based on extended definition, 'b' on usual definition.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 2.7****Sum of unemployment rate and underemployment rate in  
Bangladesh: 1989 to 2000 (per cent)**

Gender of worker	1989	1990-91	1995-96*		1999-2000*	
	(a)	(a)	(a)	(b)	(a)	(b)
Total	44.3	44.3	41.0	20.5	35.2	20.2
Male	16.4	17.0	16.4	15.4	11.6	10.5
Female	83.9	87.1	81.2	49.8	74.5	56.4

Note: (a) extended definition, (b) usual definition. \* 15 + years, rest for 10+ years.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 2.8****Underemployment rate in Bangladesh: 1996 to 2000 (extended definition)**

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

Note: Usual definition of LFPR 15+ age.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

## **Chapter 3**

### **Quality of labour force: The recent changes**

Productivity of labour will depend on their skill and educational qualifications. Wage rate and earnings of workers will also be determined by the 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 labour force. In this section we examine the changes in these endowments over the 1990s. 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 female and male labour force have been presented in table 3.1. Almost half (46.6 per cent) of the labour force are without education. About 13 per cent of the labour force have SSC and above level of education. During 1996 to 2000, there have been hardly any changes in these percentages. The only change that had occurred during this period is that class one to ten educated labour force was 42 per cent in 1996 and 39 per cent in year 2000. 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 to 1990) of acceleration of GDP growth (Islam 2004).

It is observed that a much higher percentage of female labour force than the male labour force is without education. 59 and 42 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 education. Only 7 per cent of the female labour force and 11 per cent of the male labour force have SSC to Degree level education. The ratio of female to male labour force is the lowest in the group with the highest level of education, i.e. degree and above. This is the outcome of two forces: lower labour force participation ratio of educated women and their lower representation in higher education.

The changes in the literacy levels of female and male labour force during the second half of nineties (1996 and 2000) have been presented in table 3.2. The percentage of labour force without literacy did not decline. Literacy was 55.5 per cent in 1996 and 53.9 per cent in 2000.

Literacy rate of the female labour force members is much lower than that of the male labour force members (table 3.2). Moreover the situation of the female labour force had worsened during the second half of 1990's. 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 five years, whereas the number of male labour force educated up to this level had increased by 14 per cent during this period.

Within the educated labour force (SSC and above), about 18 per cent are women (year 2000). Women constitute 20 and 16 per cent of educated labour force in the 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 has been presented in table 3.3. 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, the three age groups have similar years of schooling with a slightly smaller average for the lowest age group. 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 blurs the negative relationship between age and education.

Data on skill composition of the labour force has been shown in table 3.5. 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 percentages are 12 and 35 respectively. Skill composition should be interpreted cautiously because skill is defined to include on the job skill attainment.

### **3.2 Access to schooling and skill development: scope of improvement of the quality of labour force**

A frequently publicized positive feature of Bangladesh's development is that school enrolment rates have increased during 1990s (BIDS 2001). Table 3.6 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 especially true for the students in the secondary schools, where the increase (over the six year period) in girls' and boys' enrolment have been 43 and 18 per cent respectively. In primary schools, the increase during the six years was 9 and 3 per cent for girls and boys.

The success of school enrolment is not a sufficient indicator of an overall improvement in 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, the student teacher ratio has gone up during these years and there is a dearth of physical facilities including the lack of supply of textbooks. As a result, the actual cognitive ability achieved by the students remains poor (BIDS 2001).

These negative forces may reduce the rate of growth of primary enrolment in the coming years. A decline in total number of primary students occurred in 1999-2000. 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 (TTC) and Vocational Training Institute (VTI). Total students in vocational training are small as shown in table 3.7.

The effectiveness of skill training programmes cannot be judged through the enrolment picture alone. The success of such training 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 poorer households to the vocational training system. The boys and girls from poorer families who are unsuccessful in progressing along the path of general education would be more interested in vocational training. But the school dropouts 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 poor households.

### **3.3 Modern sector employment for educated labour force**

The usual hypothesis is that employment in the secondary and tertiary sectors requires an educated labour force and thus lack of education may act as a constraint to access to such activities. Table 3.4 provides a comparative picture of distribution of educational attainment of labour force in various sectors and the two parts of the table provide a comparison between 1996 and 2000. As we can see only three sectors are intensive in 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 education. However, there has not been a significant change in the percentage of educated workforce in each of these sectors. In some sectors the percentage with the highest education level has stagnated or declined. This happened in 'trade, hotel & restaurant', 'finance and business services' and 'transport'. In manufacturing, those with SSC and above education were 8.3 per cent in 1996 and 9.9 per cent in 2000. Thus it may be concluded that none of the secondary or tertiary sectors experienced a radical change in the quality of the employed labour force. The lack of 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 enable improvement of income from such employment.

**Table 3.1****Changes in educational attainment of male and female labour force: 1996 to 2000**

Level of education	1999-2000 (per cent)			1995-1996 (per cent)		
	Both sex	Male	Female	Both sex	Male	Female
Total	100.0	100.0	100.0	100.0	100.0	100.0
No education	46.6	42.1	58.7	46.6	44.3	58.8
Class I-V	24.3	25.4	20.4	23.3	26.4	19.2
Class VI-VIII	12.0	13.1	8.0	9.2	9.6	7.0
Class IX-X	5.5	5.8	4.3	6.4	6.9	4.9
SSC/HSC & equivalent	8.5	9.0	6.5	8.9	9.0	7.4
Bachelors degree or above	4.1	4.6	2.0	3.6	3.8	2.8

Note: Usual definition of LFPR 15+ age.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 3.2****Extent of literacy among male and female labour force: 1996 to 2000**

Location and Sex		1996	2000
All	Male	55.5	53.9
	Female	41.0	38.5
Urban	All	53.4	50.6
	Male	74.0	69.6
	Female	54.6	50.2
Rural	All	70.3	65.1
	Male	50.3	49.4
	Female	35.4	34.6
	All	48.3	46.4

Note: Usual definition of LFPR 15+ age.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 3.3****Years of education of male and female labour force by age group: 1999-2000**

<b>Age group</b>	<b>Area</b>	<b>Sex</b>	<b>Years of education</b>
15-24 years	Rural	Male	4.03
		Female	3.53
		Total	3.90
	Urban	Male	6.10
		Female	4.75
		Total	5.66
24 – 34 years	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

Note: Usual definition of LFPR 15+ age.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 3.4**

**Distribution of employed persons by industry and level of education 1995-1996 and 1999-2000 (%)**

Major Industry	Total	1995-1996					
		Level of education					
		No Education	Class I-V	Class VI-VIII	Class IX-X	SSC/HS C & Equiv.	Degree & Above
Total	100.0	51.9	25.3	8.5	5.4	6.4	2.5
Agri. Forestry, Fisheries	100.0	59.8	25.0	7.5	4.3	3.1	0.3
Mining & quarry	100.0	47.8	39.2	8.7	..	..	4.3
Manufacturing	100.0	44.3	30.7	10.6	6.0	6.1	2.3
Electricity, gas, water	100.0	7.8	24.2	7.8	7.8	27.2	25.2
Construction	100.0	56.7	26.9	7.6	2.5	4.6	1.7
Trade, hotel & restaurant	100.0	33.8	29.4	12.5	9.3	12.0	3.0
Transport, storage & communication	100.0	57.7	25.7	6.8	3.8	4.2	1.8
Finance, business, services	100.0	3.4	11.4	3.8	9.4	23.5	48.5
Community, personal services	100.0	28.4	17.8	9.7	8.0	21.6	14.5
Household sector or not defined	100.0	49.4	20.5	9.5	8.3	9.4	2.9
		1999-2000					
Major Industry	Total	Level of education					
		No Education	Class I-V	Class VI-VIII	Class IX-X	SSC/HS C & Equiv.	Degree & Above
Total	100.0	46.9	24.3	12.0	5.0	7.8	4.0
Agri. Forestry, Fisheries	100.0	56.9	24.4	10.1	3.6	4.2	0.8
Mining & quarry	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, water	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, services	100.0	12.9	7.4	6.9	4.2	30.7	37.9
Community, personal services, household sector & not defined	100.0	20.8	15.8	12.1	8.0	18.7	15.6

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 3.5****Distribution of labour force by skill: 1999-2000 (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

Note: Usual definition of LFPR 15+ age.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 3.6****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 3.7****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).

## Chapter 4

### Structural changes in the labour market: Sector and status of employment

#### 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 1984-85 to 1999-2000 there has been a small decline in the share of agriculture in total employment. Agriculture absorbed 54.4 per cent of the labour force in 1984-85, which declined to 48.4 per cent in 1996. There was a reverse change in the distribution during 1995-96 to 1999-2000. In the latest year, agriculture's share stood at 50.7 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 latest LFS a large increase in the percentage (and number) of female labour force in agriculture caused the reversal of agriculture's share of total labour force.

Data on distribution of labour force by detailed sector classification have been shown in tables 4.3 and 4.4. Comparable data on detailed sectoral distribution is available for only 1996 and 2000. The percentage of labour force employed in manufacturing sector was almost the same in the two years, 1999-2000 and 1995-96. In addition to the per cent of employment, the absolute figures of employment have been presented in table 4.4. Manufacturing employment increased by 73 thousand in urban areas and 112 thousand in rural areas. In contrast, agriculture absorbed 2546 thousand additional workers (in the rural areas). Other sectors that absorbed a significant number of additional workers were transport, finance and community and personal service. Thus during this period we do not observe any shift of labour force from primary sector to secondary sectors. During 1996 to 2000 there has been a large increase in per cent of women employed in agriculture and a reduction of the per cent of women's employment in manufacturing. It is difficult to explain the change of sectoral composition of 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 livestock raising. This may, at least partially reflect better enumeration.<sup>6</sup>

Tables 4.1, 4.2 and 4.3 thus make it clear that there has been no visible 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) conformed with the growth of GDP in the primary, secondary and tertiary sectors. As shown in table 4.5, during 1996-2000, the GDP growth rate in industry was higher than in agriculture, but labour intensity of manufacturing was much less than in agriculture. Moreover, compared to the early nineties, growth rate in agriculture has gone through a much higher acceleration compared to other sectors. GDP growth rate in manufacturing actually decelerated during this period. The nature of industrialization 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.

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<sup>6</sup> Salmon (2001) pointed out that there are problems in the sector/occupational classification of LFS data and inconsistency between sector and occupational category.

## 4.2 Changes in the status of employment<sup>7</sup>

Before we present 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 size of workers in 'employee' status along with a decline of 'day labourer/casual employment' implies that the earning prospects of hired workers increased through the provision of larger number of days of employment.
- Increase in the number of employers implies a growth of hired labour-based enterprises.
- Growth of self-employment and employer role among women reflects their empowerment. Regular employment especially in the formal sectors can be more empowering than casual employment (Kabeer 2002).

Table 4.6 shows the distribution of male and female labour force by status of employment and the changes during 1996 to 2000. During these years, the percentage 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 in percentage of unpaid family helpers. A decline in per cent of self-employment and increase in per cent of unpaid family worker category occurred among women. This is in contrast to the changes in status of employment among the male labour force.

In 1999-2000, labour force in the hired labour category (employee plus day labourer) constituted about 31 per cent of the total. To examine the hypothesis of casualisation of labour, the rate of growth of labour force in the employee and in the day labourer category will be compared. Table 4.7 shows pertinent data. During the second half of the decade, male labour in employee and day labourer category had grown at an annual rate of 2.8 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 women.

## 4.3 Interrelationship of sector and status of employment

Among the productive sectors, Bangladeshi agriculture is mainly a subsistence and family labour-based activity. Traditionally, large farmers used to hire one or two year round labourers and used casual day labourers to meet the rest of hired labour requirement. During recent years, the agriculture sector has undergone many changes including use of modern irrigation, seed and fertilizer. Moreover, the average size of arable land and the percentage of large landowners declined. The use of machinery for land preparation increased. The first set of changes implies a rise of hired labour demand, while the second set leads to a decline in 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.

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<sup>7</sup> Section 4.2 draws from earlier studies of the author especially Rahman (2004a).

Data on the distribution of labour force by the status of employment and sector has been shown in table 4.4. It can be observed that self-employment is the predominant type of employment in agriculture sector, although it uses a significant percentage of casual day labourers. Hired labour use, especially regular employees is largest in ‘manufacturing’ and is followed by ‘community and personal services’. Out of all labour force in manufacturing, 40 per cent are regular employees. In manufacturing 1491 and 700 thousand are ‘employees’ and ‘day labourers’ respectively. The two categories employ 2777 and 447 thousand workers in the sector titled the community/personal services, which absorbs the largest number of regular employees.

Data presented in table 4.4 clearly demonstrate that industry and service sectors dominate the use of hired labour. These sectors use much larger numbers (and thus percentage) of hired labour than family labour and use much larger numbers 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 agriculture, trade, transport and construction sector growth dominate the growth scenario, absorption of labour force will take place mainly through ‘day labourer’ category.

The trends of growth of labour force in ‘employee’ and ‘day labourer’ category and the casualisation of labour force have been the result of sectoral growth pattern during the nineties. As discussed above, the pattern of GDP growth in various sectors fluctuated during the two halves of the decades (table 4.2). Manufacturing growth decelerated during the second half of the nineties. Therefore the employment growth scenario was dominated by the growth of construction and other service sector, which generated employment in the casual/day labourer group.

#### **4.4 Impact of ‘sector’ and ‘status’ on hours of employment**

##### *4.4.1 Linkage between probability of poverty and employment characteristics*

Rahman and Islam (2003) examined whether self-employment, casual wage employment and employment as ‘employees’ have different implications for the chances of being in poverty. Logistic regressions were used (Rahman and Islam 2003) with the dependent variable as the probability of being in poverty. Dummy variables for three statuses of employment have been included as explanatory variables, with self-employment as the excluded variable. Among the sectors, agriculture was the base; dummy variables for other five sectors were included. Other explanatory variables included person’s age, education and household’s resource indicators. The coefficients of sector and status dummy were not discussed in detail by Rahman and Islam (2003). Therefore these are being highlighted here.

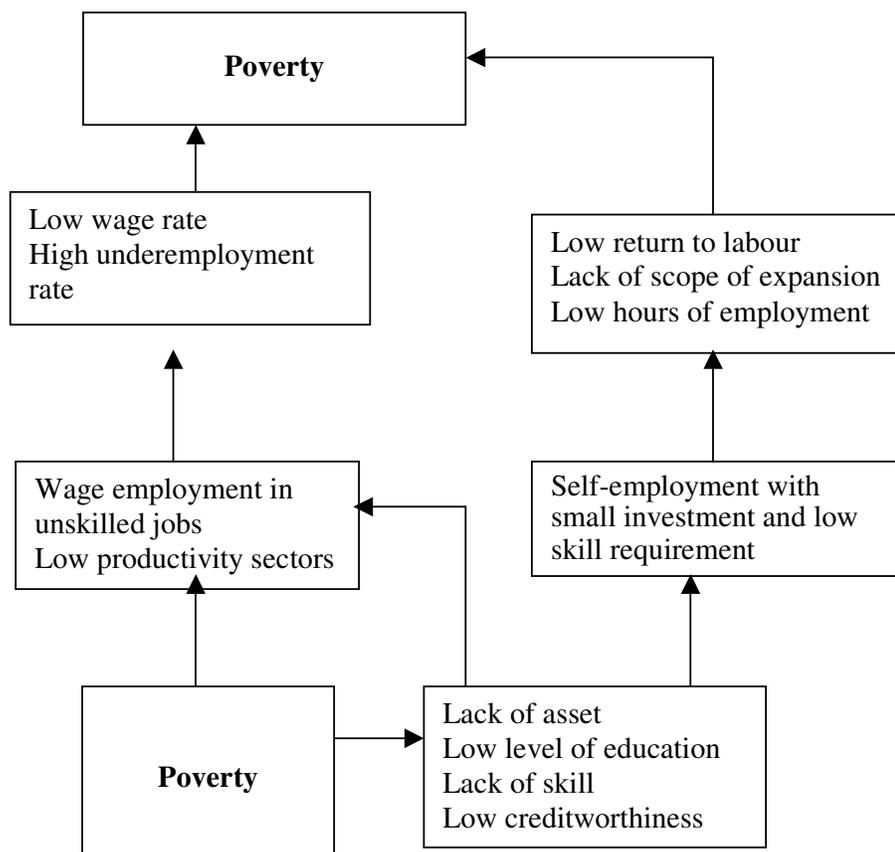
Regression results (tables 4.9 & 4.10) show that day labourers have a higher probability of being poor than the self-employed. ‘Employee’ has an insignificant coefficient and thus has no advantage over the self-employed. ‘Employee’ status is better than wage labourer, as it does not have a significant positive impact on poverty like the latter. Among the sector dummies almost all coefficients are negative, with a poverty reducing impact. Thus, keeping other factors the same, a movement from agriculture to non-agriculture will increase chances of rising out of poverty.

#### 4.4.2 Determinants of hours of employment

One of the reasons behind poverty is lack of sufficient hours of work. Before we examine the determinants of hours of employment, it will be useful to present a framework showing the linkages between status of employment, hours of work and poverty. Figure 1 shows these linkages, which are self-explanatory.

Figure 1 shows that sector and status of employment act as critical links between employment, earning 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. Table 4.11 shows the relationship between sector and hours worked; and 4.12 shows the relationship between status of employment and hours. The highest number of hours of work is in the manufacturing sector and among wage labourers.

**Figure 1**  
**Hypotheses about the linkages between self-employment, wage employment and poverty processes**



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

The explanatory variables in the equations consist of the personal characteristics of the workers, households' resource position and demographic composition, and dummy variables for the sector and status of employment. A number of explanatory variables have been included to represent factors affecting wage rate. Therefore wage rate has not been included as a separate dependent variable. Among the individual characteristics, age and its square have expected influences. Another important individual characteristic deserving attention is the education of workers. The coefficient is negative and significant. The negative coefficient reflects the relatively higher unemployment rate among the more educated.

Family assets which may influence productivity and thereby the family worker's labour supply have been included. Landownership and the remittance receipt (in dummy form; yes = 1, no = 0) are two such variables. The value of other assets was not included in the questionnaire. Instead, a few items of 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 these assets. In the absence of value of an asset, the coefficients of these assets do not have much analytical meaning 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 counterbalanced 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. Remittance also has an implication for prestige and social position of households. Therefore, for workers from non-poor households the coefficients of remittance are more significant.

Status and type of employment make significant differences in employment. Those engaged in formal employment in contrast to informal employment are found to work for larger number of hours. Regressions (tables 4.13 and 4.14) show that both 'wage employment' and 'employee' status have positive impacts on hours in comparison to self-employment. Thus wage employment is found to be associated with larger hours of employment as well as larger probability of being poor. The self-employed labour force works fewer hours than employees but have same probability of poverty. The non-farm sectors, both in urban and rural areas have significant positive coefficients and thus are making larger contributions to employment compared to agriculture.

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

#### **4.5 Major findings of the Chapter**

The major findings relevant in the context of understanding employment-poverty linkage obtained from an analysis of national sample survey data on structure of the labour force are being summarized here.

- Employment in agriculture is dominated by self-employment followed by casual employment.
- The major sectors generating paid regular jobs are manufacturing and service.
- Casual employment is associated with less hours of employment and occasional under employment. Casual labourers have higher probability of being poor compared to other modes of employment.
- When other characteristics are controlled for, workers of non-farm sector are found to work more hours (with a few exceptions).
- During the late 1990s there has been increasing casualisation of paid employment, which is responsible for slow improvement of poverty situation among paid workers. Growth of casual 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 agriculture should keep in mind the employment concern. If agriculture is to generate employment for poor households, then these households must be provided access to credit, extension and other inputs so that they may generate employment for family's workers.

**Table 4.1**

**Distribution of employment by broad economic sectors: 1985 to 2000**

Year	Agriculture		Non-agriculture		Total
	(a)	(b)	(a)	(b)	
1984-85	-	54.3	-	45.7	100.0
1989	72.5	-	27.5	-	100.0
1990-91	67.6	51.6*	32.4	48.4*	100.0
1995-96	63.2	48.4	36.8	51.6	100.0
1999-2000	62.9	50.7	37.1	48.7	100.0

Note: (a) Extended definition. (b) Usual definition

\* 10+ age, Others age 15+ years

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 4.2**

**Distribution of male and female labour force by broad economic sector**

Year	Male			Female		
	Agriculture	Non-Agriculture	Total	Agriculture	Non-Agriculture	Total
1991	54.4	45.6	100.0	33.5	66.5	100.0
1996	52.3	47.7	100.0	27.8	72.2	100.0
2000	51.8	48.2	100.0	46.9	53.1	100.0

Note: Usual definition, age 15+ for 1996, 2000, age 10+ for 1991.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 4.3****Distribution of employed persons by industry and sex: 1995-96, 1999-2000\* (Per cent)**

Major Industry	1995-96			1999-2000		
	Total	Male	Female	Total	Male	Female
Agri. Forestry, Fisheries	48.8	52.3	27.8	50.7	51.8	46.2
Mining & quarrying	0.1	0.1	0.0	0.5	0.3	1.0
Manufacturing	10.2	7.7	25.3	9.5	7.5	17.7
Electricity, gas, water	.3	0.3	0.3	0.3	0.3	0.2
Construction	2.9	3.1	1.5	2.8	3.2	1.3
Trade, hotel & restaurant	17.2	18.5	9.8	15.8	18.2	6.3
Transport, storage communication	6.3	7.2	0.7	6.3	7.8	0.6
Finance, business services	0.6	6.6	0.3	1.0	1.2	0.6
Community and personal services And others	13.6	10.1	34.9	12.9	9.6	26.2
All	100.0	100.0	100.0	100.0	100.0	100.0

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 4.4****Employed persons by status in employment and major Industries, 1999-2000**

(Thousands)

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

Source: LFS 2000. Bangladesh Bureau of Statistics (BBS).

**Table 4.5**

**Trend growth rate of GDP from agriculture, industry and service sectors (at constant 1995/96 prices)**

Period	GDP Growth (per cent per annum)			
	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 4.6**

**Distribution of employed persons by status of employment and sex (Per cent)**

	1995-1996			1999-2000		
	Total	Male	Female	Total	Male	Female
Self-employed	45.4	47.8	31.3	46.7	51.4	26.6
Employer	0.4	0.4	0.5	0.3	0.3	0.0
Employee	16.8	14.9	28.5	16.7	15.8	20.3
Unpaid family helper	12.0	11.0	18.6	12.0	6.4	34.1
Day labourer	25.3	26.0	21.2	24.3	26.1	19.0
All	100.0	100.0	100.0	100.0	100.0	100.0

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 4.7**

**Growth of labour force in 'employee' and day labourer category**

Rate of growth (per cent per annum)

Type	Sex	1996-2000
Employee	Male	2.8
	Female	3.6
	Total	3.0
Day labour	Male	1.3
	Female	9.1
	Total	2.3

Source: Calculated from LFS data.

**Table 4.8**

**Underemployment rate among various status of employment: 1995-96, 1999-2000**

(Per cent)

Status in Employment	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 worker	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**

<b>Explanatory variables</b>	<b>Coefficient</b>	<b>Standard error</b>	<b>Significance</b>
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 received	-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**

<b>Explanatory variables</b>	<b>Coefficient</b>	<b>Standard error</b>	<b>Significance</b>
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 dependant	.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 received	-2.49	.31	.00
Asset1	-.72	.11	.00
Asset2	.49	.20	.01
Asset3	-1.51	.44	.00
Asset 4	-1.19	.93	.20
Asset 5	-.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, sex**

Locality, sex and industry	1999-2000			Locality, sex and industry	1995-1996		
	All	Male	Female		All	Male	Female
Total	46	49	32	Total	46	48	36
Agriculture	44	48	28	Agri. forestry, fisheries	45	46	32
Manufacturing	45	51	36	Manufacturing	47	52	37
Electricity, gas and water supply	47	48	40	Electricity, gas, 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 intermedi	47	47	46	Financial, 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 works	48	47	47				
Public administration	46	46	43				

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 4.12****Average weekly hours worked by status of employment and sex: 1999-2000**

Status in employment	Both sex	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). Bangladesh Bureau of Statistics (BBS).

**Table 4.13**

**Determinant of hours of employment: OLS regression for non-poor household in urban and rural areas**

Explanatory Variables	Urban Areas			Rural Areas		
	Coefficient	Value of 't'	Significance	Coefficient	Value of 't'	Significance
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. Bangladesh Bureau of Statistics (BBS).

**Table 4.14**

**Determinant of hours of employment: OLS regression for poor household in rural & urban areas**

Explanatory Variables	Urban Areas			Rural Areas		
	Coefficient	Value of 't'	Significance	Coefficient	Value of 't'	Significance
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. Bangladesh Bureau of Statistics (BBS).

## **Chapter 5**

### **Wage rate: Trends and sectoral variations**

Discussion on the determinants of wage variations will focus on two aspects: first, the sectoral variation of wage rate and second, factors affecting individual wage variation. The usual notion is that modern sectors represented by secondary and tertiary activities have higher productivity than the primary sector and therefore, pay higher wages. In contrast, in a situation of widespread poverty the informal labour market may expand and informal enterprises in the secondary and tertiary sectors will generate low paid wage employment. These issues are discussed in sections 5.1 and 5.2. The last part of the chapter will examine the changes of real wage rate during the last twelve years or so.

#### **5.1 Sectoral variation of wage rate**

Data on wage rate by sector are shown in table 5.1. The range of variation of wage rate by sector is not very large. The largest difference of wage rate is between agriculture and other sectors. Among the non-agricultural sectors certain type of service (education) shows a higher daily wage rate. Banking and insurance has the highest wage rate. The weight of these activities in total employment is low.

Female wage rate is much lower than the male wage rate. This is true for each and every sector.<sup>8</sup> Female wage rate, like the male wage rate is highest in education service. The difference between the male and female wage rate is largest in ‘mining and quarrying’ followed by manufacturing.

Since wage rates are highest in the service sectors requiring more education, the hourly wage rates may be higher not because of basic features of the sector but because it involves returns to education.

#### **5.2 Determinants of wage variation**

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

In the urban area the manufacturing sector is the omitted variable with six 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 significant. A noteworthy feature is that rural manufacturing has a negative coefficient.

Workers age and its square 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 a previous chapter,

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<sup>8</sup> A general discussion of gender dimensions of wage difference can be found in Rahman (2003b).

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

Landownership has positive and significant coefficients in both rural and urban areas (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.

To examine the prospects of further expansion of employment in the activities currently providing employment, the wage rate can provide useful insight. If marginal productivity declines with increase of employment, the wage rate would stagnate. Indirect evidence on this is obtained from the relationship between wage rate and the hours worked per week. Table 5.3 shows that these two move in the same direction. Thus, the better-paid and low paid workers' monthly earnings will diverge much more than the difference of wage rate. The pattern holds for both male and female workers. The relationship does not hold for the construction activities. The relationship is stronger in agriculture but also holds for manufacturing. This implies that there are prospects of developing the more productive activities within both agriculture and manufacturing.

### **5.3 Trends of real wage**

Wage employment has been found to be associated with higher probability of poverty. Real wage trends may therefore, be considered as indicators of poverty trends. Cross sectional difference between wage rate of workers from poor and non-poor households have been discussed in Rahman and Islam (2003). Trends of real wage rate up to the end of the nineties was also covered in that paper. A few more years' data is now available and therefore the wage trend needs attention.

Rising investment rate and GDP growth rate during the last few years is expected to accelerate the growth of real wage rate. Even if a large part of the growth of labour use is in the form of self-employment, a reduction of male underemployment rate 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 rate. Moreover, with un/underemployment rate above 10 per cent, the demand shifts may not have sufficient pressure on wage rate, which was the case until the middle of last decade.

In the calculating 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 labourers in agriculture. Agricultural wage rate 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 a strong linkage between wage rate in agriculture and RNA (WB 2004).<sup>9</sup>

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<sup>9</sup> It should, however, be recognized 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

In the estimating of real wage a controversial question is which deflator should be used for conversion of nominal wage into real wage rate. For converting wage rates of urban sectors, a separate CPI for urban industrial sector is produced by BBS.<sup>10</sup> In the absence of CPI for rural wage labourers, one may use either the CPI for all the rural population or that for the industrial workers. To compare the changes of real wage in agriculture with that of other sectors, a consistent deflator should be used for all 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 are based on all rural households and in this respect it is no better than the rural CPI. Moreover, HIES prices are actually by-products of expenditure data as the actual data pertains to quantity consumed and total expenditure. Moreover, expenditures on many items are imputed values for family produced goods. It is extremely unlikely that the respondents will use uniform retail market prices as conversion factors. Thus the logic for 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 rate only in year 2000 (as shown in a figure in the study). 1996 was a year with one of the lowest real wage rate, 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 5.5a presents annual growth rate of real wage from data presented by Sen and Hulme (the last column of table 5.5a) where they have used a combination of BBS-CPI and HIES-CPI. Annual growth rate from Sen and Hulme's real wage index gives a discernible decline in the rate of growth of wage rate during the sub-periods including the most recent three-year sub-period.

A similar trend is given by other data (table 5.5b) of Sen and Hulme (2004). Sen and Hulme (2004) used an alternative deflator based on coarse rice prices and arrived at the estimates of real wage presented in table 5.5b. The report says, 'In 1991 the figure (real wage) is 3.6 kg; in 2000 it has gone up to 4.8 kg rising further to 5.2 kg in 2003'. Given these numbers, Sen et al's data show that per year growth of real wage was 3.7 per cent during 1991 to 2000 and 2.9 per cent during 2000 to 2003.

To answer the two questions posed at the beginning of this section, the present study calculates two sets of wage indices. For better comparability among sectors, real wage indices for all sectors have been calculated on the basis of industrial workers CPI

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employment and most of them do not get year round employment in agriculture and engage in other activities with low productivity.

<sup>10</sup> 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.

(part 'b' in table 5.6). An alternative set of agricultural real wage indices have been presented (part 'c' in table 5.6) which is based on rural CPI. This set of CPI uses a more recent base year but BBS has not yet published this series for the recent years or for years before 1993.

The changes of real wage index in agriculture and non-agriculture presented in part (b) of table 5.6 reveal that movement of real wage in the major sectors show contrasting features. Real wage improvement has been much slower in agriculture compared to manufacturing. During 1991-97, real wage index had risen by 13 and 16 points respectively in agriculture and manufacturing. During the following seven years, (1997 to 2004) the changes in real wage indices in the two sectors were 14 and 45 points respectively. Construction sector, in contrast shows only four points rise in real wage index during the early nineties (1991 to 1997) and registered 15 points rise during 1997 to 2004.

If we consider the other set of real wage indices in agriculture, it increased by 13 points between 1993 and year 2002 whereas the real wage indices for manufacturing and construction increased by 31 and 12 points.

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

The contrasting trends of real wage in the agriculture and organized sectors imply that growth of real wage in the latter may not have been due to acceleration of growth of employment in the sector. If such acceleration of employment in organized sectors occurred, this could exert pressure on the wage rate of agriculture and other non-formal rural or urban sectors, which constitute the source of supply for the formal sectors. Such an isolated rise of real wage rate 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 relationships resulting in payment above the real opportunity cost of labour. It may be noted that the regression equation for cross sectional variation of wage rate gave a significant positive coefficient of urban manufacturing (section 5.2).

From two wage indices for agriculture presented in table 5.6 and the data from other recent studies, it is difficult to draw definite conclusions. The following findings are common to all data sets and studies:

- During 1993 to 1999 there has been a virtual stagnation of real wage in agriculture.
- From year 2000 real wage reached levels higher than or equal to 1993.
- Real wage in the flood year (1999) was lower compared to the previous year.

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 trends of real wage indices in general and agricultural real wage in particular.

## 5.4 Major conclusions

- 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 the wage rate is the lowest and second, average wage rate is much lower than the average return to self-employment in any activity.
- Agricultural wage rate is not only lower than manufacturing wage rate, but had grown at a slower rate. This has contributed to urban-rural disparity in poverty incidence and the highest poverty incidence among agricultural wage labourers.
- Human capital variables have positive impact on wage rate as expected. These variables have a much larger impact in the wage equations for urban workers. Therefore, 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 rate.
- External shocks like the devastating flood of 1998 can have significant negative impact on real wage rate especially in agriculture. The 1998 flood had caused a decline in real wage in manufacturing and construction as well.

**Table 5.1**

**Average wage rate by sex and industry: 1999-2000**

<b>Sex and Industry</b>	<b>All</b>	<b>Male</b>	<b>Female</b>
Both Sex			
Total	61.29	65.43	38.07
Agriculture, Animal, 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 Intermedi.	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 (various years). Bangladesh Bureau of Statistics (BBS).

**Table 5.2**

**Determinants of wage/salary per day: Results of OLS regression equation**

Model	Urban			Rural		
	Coefficient	Value of 't'	Significance	Coefficient	Value of 't'	Significance
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
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****Wage rate by sector by weekly hours worked**

<b>Work Type</b>	<b>Weekly working hours group</b>	<b>Male wage per day (taka)</b>	<b>Female wage per day (taka)</b>
Agriculture	1-14 hours	-	24.55
	15-24 hours	46.15	31.38
	25-34 hours	54.80	32.02
	35-44 hours	59.89	31.56
	45+ hours	61.67	40.34
Manufacturing	1-14 hours	-	30.83
	15-24 hours	-	-
	25-34 hours	-	28.00
	35-44 hours	93.04	39.26
	45+ hours	81.85	50.00
Construction	1-14 hours	-	-
	15-24 hours	78.33	-
	25-34 hours	-	-
	35-44 hours	88.32	46.67
	45+ hours	96.75	74.55

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

**Table 5.4****Determinants of weekly working hour of paid workers: urban and rural**

Dependent Variable: Wage worker weekly working hours

Explanatory variables	Urban			Rural		
	Coefficient	Value of 't'	Significance	Coefficient	Value of 't'	Significance
(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.

**Table 5.5a**

**Trends in real agricultural wage based on poverty line deflator, 1983/84 to 2003**

<b>Year</b> <b>(Col. 1)</b>	<b>Nominal Wage</b> <b>(taka/day) (Col. 2)</b>	<b>Real Wage**</b> <b>'W'</b> <b>(taka/day) (Col. 3)</b>	<b>Deflator</b> <b>(1983/84=100)</b> <b>(Col. 4)</b>	<b>Per cent per year</b> <b>Rate of growth of</b> <b>'W' (Col. 5)</b>
1983/84	19.58	19.58	100.00	3.2
1988/89	32.71	23.21	140.96	
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: Col. 1 to 4 from Sen and Hulme (2004) and Col. 5 is author's calculation based on Col. 3.

**Table 5.5b**

**Trends of real agricultural wage rate based on coarse rice price deflator, 1983/84 to 2003 (Taka/day)**

<b>Year</b> <b>(1)</b>	<b>Nominal Wage</b> <b>(2)</b>	<b>Real Wage**</b> <b>'W'</b> <b>(3)</b>	<b>Deflator</b> <b>(1983/84=100)</b> <b>(4)</b>	<b>Per cent per year</b> <b>Rate of growth of</b> <b>'W' (5)</b>
1983/84	19.58	19.58	100.00	5.8
1988/89	32.71	24.57	133.11	
1991	41.77	27.55	151.60	
1995/96	45.58	24.95	188.71	3.5
2000	63.60	36.23	177.39	
2001	65.13	36.31	179.39	2.9
2003	72.23	39.42	183.25	

Note: Daily agricultural cash wages for male labour (without food). \*\* The series of 1983/84 through 2003 is based on deflator constructed on the basis of coarse rice price.

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

**Table 5.6****Wage rate indices by sector (Base: 1969-70=100)**

Year	a				b				c
	Nominal Indices				Real Wage Indices*				Real wage indice of agriculture based on rural CPI, base 1985-86
	General	Manu. industry	Construction	Agri-culture	General	Manu. industry	Construction	Agri-culture	
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	74.1
1993-1994	1709	1828	1598	1593	114	121	106	106	72.2
1994-1995	1786	1947	1613	1653	111	121	100	103	67.3
1995-1996	1900	2064	1754	1738	114	123	105	104	66.0
1996-1997	1989	2161	1848	1804	120	130	111	108	65.6
1997-1998	2141	2395	1990	1870	122	137	114	107	74.4
1998-1999	2259	2522	2163	1950	118	131	113	102	68.5
1999-2000	2390	2702	2286	2037	121	137	116	105	89.6
2000-2001	2489	2832	2356	2141	125	142	118	107	88.9
2001-2002	2637	3035	2444	2262	130	150	121	112	87.2
2002-2003	2926	3501	2624	2443	142	169	127	118	-
2003-2004	3079	3705	2669	2582	146	175	126	122	-

Note: \* (Uses industrial workers' CPI).

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

## Chapter 6

### Poverty reduction through self-employment: Potentials and constraints

A slow growth of wage rate in agriculture and other non formal sectors, high poverty incidence among casual worker's and slow growth of regular employment in formal sectors (discussed in chapters 4 and 5) led to the realization that non-farm self employment can offer an alternative strategy for 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 earning. The present chapter (and also parts of the subsequent chapters) examines the role of non-farm self-employment and especially rural non-farm activities (RNF) from the point of view of employment and income generation for poor households.

#### 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 poverty. 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 does not require specific skills, such activities often require numeric, literacy and management abilities. Poorer households have less access to schooling and skills obtained through formal training.

More important requirements of setting up non-farm enterprises are knowledge of the outside world, such as, when and where to buy raw materials, capital equipments, and how to market output, etc. Poorer 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. The creation of business advisory services is recently being considered to fill in this gap.

Non-farm self-employment requires access to a minimum amount of family wealth. 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. Owner of rickshaw/auto needs a space where it would be parked at night. For processing of food/crops the homestead area plays an important role. Poor women without such homestead cause much annoyance to the highway travellers as they

use a part of the road for drying paddy (which they process and 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 for 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 poor households during the last decade. Such credit 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 (MC). But those who possess a small sized holding would hardly have an 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 being 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 vary between 20 per cent to 30 per cent per annum. Not only is the rate of interest high in an absolute sense, these rates are also higher than the cost of commercial credit.<sup>11</sup> Many self-employment activities may not be profitable at those rates of interest (Rahman 2004b). Many studies have shown that returns to labour in some of the MC financed activities are lower than the prevailing wage rate.

Above constraints may reinforce one another and form a cycle of barriers. Whilst non-agricultural growth offers the promise of increase in income, poverty tends to be reinforced through constraints to self-employment acting at both individual level and also at the regional level. While the removal of structural constraints is a necessary precondition, 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 (Asaduzzaman 2004, WB 2004, Khandker 1996). It must be recognized that the choice of self-employment in non-farm activities is likely to require a different set of qualifications and personal traits compared to those who choose paid employment in non-farm sector. Therefore in the present discussion, this difference receives attention. Individual and family characteristics are likely to explain the choice of self-employment vs. wage employment in non-farm activities. Influence of regional characteristics could not be examined because relevant variables were not available in the data set from the LFS.

The analysis is based on logistic regressions.<sup>12</sup> The dependent variable in the equation is 'whether head of the household is in non-farm self-employment'. Self-

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<sup>11</sup> 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. A more elaborate discussion of the issue has been presented in Rahman (2004b).

<sup>12</sup> WB (2004) examines the role of regional characteristics.

employment is usually organized as family enterprise and the choice may be examined through head of households' employment status. The dependent variables include age and square of age, education of the worker, education of other workers, sex of worker, area dummy (urban = 1), number of earning members in the household, ratio of female to total number of family earners, family's landownership, whether male head of household, 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 remittance 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 remittance have significant positive coefficients for self-employment.

Involvement in RNF provides livelihood security especially for poorer households and supplements their farm employment. In this context, the relevant macro data on the extent of multiple activities can be relevant. LFS 2000 data shows (table 6.6) that about 12 per cent of employed labour force are engaged in subsidiary occupation. Only twenty per cent of this group is engaged in non-farm sector.<sup>13</sup> This is higher than the extent of involvement in 1995-96 (when the relevant figure was 9.1 per cent).

This data does not fully capture the extent of secondary activity. Secondary activities are often taken up within the same sector (e.g. a second non-farm self enterprise or wage employment). In India, sample surveys with such detailed classification have been used for policy relevant analysis (Bhalla 2003), which is not possible with LFS data in Bangladesh.

### **6.3 Determinants of income from self-employment**

Assessment of self-employment enterprises' performance requires data on returns to labour and capital. But we do not have enterprise level data. To examine the factors contributing to the success of self-employment we have used income per hour from self-employment as the indicator of success. It is difficult to obtain accurate data on income from self-employment from the LFS data. Moreover, hourly return 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 return because some of the other members of household may contribute labour to this activity. Therefore a second estimate of hourly return has been calculated on the basis of households' income from self-employment and all household workers' labour inputs in self-employment.

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<sup>13</sup> 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.

Multiple regression equations have been estimated to explain hourly return from self-employment. Two equations have been estimated with the two estimates of return defined above. The following discussion is based on the return for the head of the households 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 members as head of household have very high values of coefficient and are 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 positive and significant coefficients for both urban and rural equations. Ownership of shop or trade, auto, taxi or motor cycle and cycle, 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 earning (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 shows that lowest per day earning is given by manufacturing, followed by transport activities.

#### **6.4. Case studies of RNF enterprises and the role of RNF in poverty reduction**

From cross sectional data on poverty (or current income level) and extent of involvement in non-farm self-employment (or for that matter, from cross sectional regression) one cannot, however, draw conclusions on the scope of poverty reduction through such employment.<sup>14</sup> The problem arises because of the possibility of reverse causality. This means, those who are in RNF and are above the poverty threshold, may have undergone improvements after entering into this activity or they might have started RNA from higher income levels. Moreover, if non-farm self-employment can raise income, why is this 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 poor and non-poor households are usually of different nature. The difference cannot be adequately captured from the picture of average income/return per household. Data on capital and labour input can sharpen the questions about the linkages between poverty and self-employment.

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<sup>14</sup> This has been recognized by other recent studies on the role of RNF 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).

Data for a number of enterprises from two sectors have been presented in tables 6.4 and 6.5. In both tables the first few columns show enterprises of non-poor households and the last column provides data on a poor household.<sup>15</sup> The contrast between the small enterprise and the larger ones are:

- Total capital in the poor household's enterprise is very small.
- Capital labour ratio is also strikingly different. In the small enterprises of poor households, capital labour (family + hired) ratio were taka 4700 and taka 6200 compared to taka 85,000 in the largest one.
- Percentage returns to capital from the small enterprises are unusually high, 212% and 562%.
- Return to capital is high for the larger enterprises as well. These returns (in the range of 60% to 111%) are many times higher than the rate of interest of any bank.
- For the mini enterprises, the monthly earning per worker is close to or slightly higher than the monthly salary of paid workers in RNA.

These findings raise some questions relevant for policies for pro-poor growth. First, if rate of return to capital is so high, why can't these enterprises expand? The banks and MFIs should extend credit to new and existing enterprises. The answer is that other constraints, which do not appear in the tables, may be binding. Such constraints 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 can't the unemployed women from poor households engage in self-employment and add to family earnings? These questions have received detailed attention in the following parts of the chapter and in chapters 7 and 8.

The rest of this section presents 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 to 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 that did not venture into such activities even if they were willing and (b) whose enterprises went out of business. The case studies of unsuccessful enterprises and those who failed to enter into self-employment will be discussed in section 6.5.

We held FGD sessions among small and marginal landowner households. The locations were some villages in Gazipur district. It was observed that the younger wage labourers in the rural areas, especially those from absolutely landless households, do not venture into 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 lists of a large number of activities. They are involved in enterprises in sectors like bakery, rice mill, auto rickshaw, production of miscellaneous food items, grocery, peddling, fishing and fish trading,

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<sup>15</sup> The enterprises were selected purposively to represent various sizes. These are located in various parts of Mymensingh districts.

carpentry, boat transport, wood trading. The list is quite impressive. The rates of return to most activities are high. As a result, many of the households have moved above the poverty line.

Some of these enterprises are housed within the homestead area of the owner. Some of them rent or own shops in the local market. New shops are sprouting and this reflects the growing demand from 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 demonstrates ingenuity in the choice of combination of activities to maximize family income. For example, about 6-7 persons formed a fishing group and the catches were substantial during the rainy season. In the summer season, they work as agricultural labourers. 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 fish purchased from wholesalers and sell these to local retailers. Paddy processing and rice trading is another major RNA in the 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 waterways 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 one lack (100,000) to five lacs 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 an enterprise and the feasible set of technology depend on whether it is mainly based on a family's supply of labour and managerial service. Most enterprises are based on a family's resources, at least for managerial purposes. Repair shop, transport, bakery and other food processing enterprises fall under this category. A small amount 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 specialized 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 the use of mainly family labour and close supervision of hired labour, not only is labour cost low, but also the efficiency of the resource 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 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 RNA may not offer a solution to the poorest unskilled workers. RNA is not a solution to the currently worsening unemployment problem among the young labour and unemployment among female labour in poorer regions. Poor workers, will however indirectly benefit from the growth of RNA self-employment. With rising labour absorption in RNA, overall labour demand will rise, exerting a pressure on farm wage rates (WB 2004). But this effect may not work in poorer regions with less RNA intensity.

## **6.5 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 sector. 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 them.

### **Box 1**

#### **Case studies of unsuccessful enterprises**

##### *Goldsmith*

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 work. 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 his 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 stamps and other items using screen printing techniques. Then he established his own shop, renting a shop in a formal market place. The shop was the government's property. The building was old and was demolished, and a new building was constructed. Shops were leased out to those who could give advances ranging from taka sixty to eighty thousand. Since he could not make an advance payment, he would be charged 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 vegetables. 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 and she had to spend a few thousand takas for his treatment. This meant that the capital of her business was spent. She is now in search of capital to restart the 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 the HSC in 1999. He lives in a village close to the district town of Mymensing. 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 sixty thousand. He did not restart the farm. He is trying to set up another business with 'dry goods'.

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

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

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. Other major risk factors not included in the case studies involve 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 his earnings. He has much less work these days.

To address the question of loss of capital due to various misfortunes or natural calamity etc., 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 type of organization will be in a position to provide such support.

## 6.6 Can self-employment help the poor: Major findings

- In this chapter we have highlighted the poverty related factors, which influence the prospects of self-employment, both in terms of entry and income levels generated by such activities. 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.
- If one considers return to capital as an indicator of efficiency, then many miniscule activities will top the list. But given the very small size of capital, income per month from such activity may not be above the poverty cut-off level. The monthly income from such enterprises may be 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 hired labour based on growth of secondary and tertiary sectors, which may help generate employment for the poorest that cannot set up their own enterprises.

**Table 6.1**

### **Whether one is engaged in non-farm self-employment: results of logistic regression**

<b>Explanatory Variable: Whether in non-farm self-employment</b>	<b>Coefficient</b>	<b>Significance</b>
Age	-.03	.24
Age square	.01	.14
Education of head	.24	.00
Education of other worker	.08	.00
Sex dummy (male = 1)	.71	.00
Area dummy (urban = 1)	-.41	.00
Number of family worker	-.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. BBS.

**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		
	Coefficient	Value of 't'	Significance	Coefficient	Value of 't'	Significance
(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	293.24	9.66	.00	64.38	4.35	.00
Taxi dummy						
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. BBS.

**Table 6.3****Income per day of self-employment in different sectors**

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

Source: Estimated from LFS 2000 data. BBS.

**Table 6.4****Case studies of poultry farms**

<b>Inputs/Return</b>		<b>Poultry Farm Non-poor</b>	<b>Poultry Farm Non-poor</b>	<b>Poultry Farm Poor</b>
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 (taka)		12.5 dec.	5 dec.	0.25 dec.
Total land owned		1938 dec.	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.

**Table 6.5****Case studies of rice mills and paddy processing**

<b>Inputs/Return</b>		<b>Rice Mill Non-poor owner</b>	<b>Rice Mill Non-poor owner</b>	<b>Rice Mill Non-poor owner</b>	<b>Paddy processing Poor</b>
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.

**Table 6.6****Employed persons aged 15 years and over by subsidiary occupation, sex & residence**

<b>Occupation</b>	<b>1999-2000</b>			<b>1995-96</b>		
	<b>Both sex</b>	<b>Male</b>	<b>Female</b>	<b>Both sex</b>	<b>Male</b>	<b>Female</b>
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 worker	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 & trans. 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). Bangladesh Bureau of Statistics (BBS).

**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		
	Coefficient	Value of 't'	Significance	Coefficient	Value of 't'	Significance
(Constant)	23.66	12.86	.00	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 worker	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: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 6.8****Determinants of income per hour of self-employment of all workers: Results of OLS regression**

Dependent Variable: Hourly income from self-employment

Explanatory variables	Rural			Urban		
	Coefficient	Value of 't'	Significance	Coefficient	Value of 't'	Significance
(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 worker	-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: LFS (various years). Bangladesh Bureau of Statistics (BBS).

## **Chapter 7**

### **Gender inequity in employment and poverty reduction through 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. The objective of the present chapter is to examine the possibilities of poverty reduction through employment generation for women from the lowest income stratum. The first section highlights some of the major findings on the situation of the male-female differences and the changes in female labour market characteristics over the 1990's. The subsequent sections focus on the prospects that the poor and especially 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. Gender inequity in labour market and employment: a review of the situation**

##### *Labour force participation rate, unemployment and underemployment*

Women's labour force participation rate (LFPR) increased during the nineties while male LFPR slightly declined. Analysis of marital status of labour force shows that unmarried women's share in the labour force declined during recent years. This may have adverse implications for empowerment of young unmarried women.

During the 1990's, the unemployment rate and especially educated unemployment rate had increased both among male and female labour force. The increase had been manifold among women. Such an increase reflects that the increase in secondary school enrolment has resulted in the production of unemployable SSC holder women.

Gender inequity is also reflected in the extent of underemployment. Underemployment rate among women increased (on the basis of usual definition) between 1995-96 and 1999-2000 while the underemployment rate among men has declined. In fact, women's disadvantage in the labour market is most glaring when the magnitude of employment and underemployment is considered. Underemployment rate of women is as high as 53 per cent while male underemployment rate is one digit (7 per cent).<sup>16</sup>

Educational attainment of both male and female labour force showed a small improvement during the last decade. The improvement has been smaller for the female labour force. Moreover, per cent of literates in the female labour force declined, where the decline was 2.5 percentage points.

Only a small per cent of female workers have been categorized as skilled. Percentage of skilled female labour is much smaller than male workers. Poorer women have less access to education and skill endowment, but women from this group are more

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<sup>16</sup> 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.

likely to take up paid employment. This factor contributes to the slow improvement of educational endowment of female labour force.

#### *Status and type of employment*

Both number and percentage of women in entrepreneurial/employer status declined during the early nineties. During the second part of nineties the number increased, though the percentage was still lower than that in 1991-92.

Over representation of women in unpaid family employment is quite significant and increased during the second half of 1990s.

The female labour force experienced a significant extent of casualisation during this period.

#### *Wage rate and earnings*

Findings on women's disadvantage in terms of wage differential were not given detailed attention in this paper because a number of recent papers (Rahman and Islam 2003, Rahman 2004a) examined this issue. A few salient features are highlighted below.

Women's wage rate in the rural areas declined or stagnated during the nineteen nineties. In the urban areas, the ratio of female to male wage rate increased. The male/female differential in wage rate is large and the absolute value of the difference increased overtime.

The summary of findings presented above highlight that a larger per cent of employed women (compared to men) accept an inferior type of employment and earns less. Indicators of human capital have shown that female labour force is less endowed with such capital. Therefore 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 sustained poverty reduction only if it is of 'regular' type. The following sections will examine separately the prospects of better employment for poor women from rural and urban areas.

### **7.2 Prospects of self-employment of rural women from poor 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 of type of employment.

In the FGD sessions, we enquired about who were the poorest among the group of women and why they did 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 loans. They became members to avail the savings services for their tiny savings. One of them depended mainly on her son's earnings. She also made handcraft items with jute and sold these to buyers from an NGO. She earned around taka 250 per month from this source.

We asked her why she does not take loans. She replied 'I do not have the courage'. We were surprised. NGO credit comes to the doorstep, no complex forms need to be filled in, no waiting in the offices and money can be repaid in instalments.<sup>17</sup> The problem she envisages is about repayment of instalments. If she buys a small cow and sells it after a year, she may make a profit of about 5000 to 7000 taka. 'Where do I get the money for paying instalments?' was her question. Moreover, there are risks that the cow (or poultry) may die. If an earning husband is there to provide support and money for repaying loan in instalments, it works well. Thus the problem is about finding activities where she can generate instant return and sufficient return to repay loans. 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 very low hourly return. 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 a loan from an NGO. She prefers regular wage employment, even if she has to dig earth and work on the roadside as she did during the last two years.

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. Wage per day may be higher in the latter situations. 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 low opportunity cost of labour.

FGD sessions with women provided the insights listed in Box 2.

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<sup>17</sup> The NGO operating in the area is a partner organization of PKSF. PKSF and other small and large NGOs have taken up schemes for providing micro-credit (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 repaid by the poorest households.

**Box 2**  
**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 skill.
- 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 utilize 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 show interest in self-employment and may be provided with a combination 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 emphasized 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'*).

From our discussion with women, it appeared that they do not 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 works (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 3**  
**Case studies on women's lack of access to family employment**

**Women's in-house work for husband's shop**

One of them is a grocery shop owner, who 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 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**

One of them was a carpenter who made furniture, doors etc. We asked him 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 recognizing 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).

### **7.3 Role of wage employment of poor rural women**

A search was made in the rural areas to examine the prospects 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 Mymensing. The latter set were relatively prosperous villages close to the city.

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

In Mymensing, 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 same. Women and men receive taka 40 and 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 2kg 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 are taka 1920.

Work at the rice mill is a physically demanding task. Those unable or unwilling to take up such a job may find work as domestic help in the city area. These women mainly get food and clothing as their wage with a cash payment ranging between 100 to 300 taka. Total value of cash and food is equivalent to about 30-40 taka 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 the field activity of crop cultivation. Poor women themselves are not averse 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-clins need thousands of workers and they employ both men and women. These 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 weaker, and cannot carry heavy loads of paddy. They cannot do the heavy work of crushing of the bundles of paddy. But why don't women get employment in activities like transplanting or weeding? 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 some 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 rates but prefer regular employment with assured earning. Employers care about social stigma and would not hire female workers for field activities of crop cultivation in most villages. But inter village 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 continue to 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 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 roles 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 some limited type of jobs is considered as 'women's job'. Women are expected to work in locations close to the homestead. This is especially true in the rural areas.<sup>18</sup>

As a result of traditional outlook, rural women are usually engaged in the processing of the crops (rice, jute, lentils etc.) and 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.

#### **7.4 Role of self-employment and wage employment of poor urban women**

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 (readymade garments) 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 LFS or other national sample surveys. The 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 UIS are usually petty traders and hawkers engaged in marginal types of business with meagre capital. Whereas most informal sector activities are based on unpaid spaces, women use locations, which are inferior to the spaces occupied by men in similar trade.

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<sup>18</sup> 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 work is far from home.

The occupancy of these spaces is vulnerable. Therefore women's income from self-employment is low as well as uncertain.

Wage employment in both formal and informal jobs is associated with low wage rate and poverty. Growth and sustenance of formal sector jobs, especially in RMG sector are subject to fluctuation linked with external demand. A number of studies examined the working conditions of women employed in RMG sector and provided recommendations for improvement of these conditions (Paul-Majumder 2004, 1996 Kabeer 2001, Paul-Majumder and S. Zohir 1994). Therefore this aspect is not touched upon in the present paper.

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. We have 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 a low salary so that it is 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. Women from poor households accept this type of job in RMG.

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 formal sector employment on women's health, consumption pattern and empowerment (Paul-Majumdar 2004, Paul and Zohir 1994). 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 husbands who will receive it as dowry.<sup>19</sup>

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 rates 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 in wage rates (Rahman 1996, Paul-Majumdar 1997) shows 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.

Women in the low paid jobs cannot bargain for better wages because:

- They come from poor households and are desperate to have a job, however low the wage is.
- Their families exert a pressure for not losing the job, even if the working condition is poor and wages are low.

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<sup>19</sup> The Bangladesh Daily Star has published many stories on attempts to buy a husband with hard earned money.

- Most women do not have much experience of wage employment and labour market.
- There is no formal organization of female workers. Few units of RMG have trade unions and few women are members of unions.
- Trade union leaders and women's organizations recognize the need for including women in trade unions and working for their cause although few practical steps have been taken.

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: poor 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 return from self-employment, productivity of female labourer 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.

## **7.5 Summary of findings on employment for the poorest women**

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. They hardly possess assets or financial capital. Wage employment is the preferred option among these women.

These women have low bargaining power and are ready to work at wages much lower than the prevailing male wage rate. 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.

## Chapter 8

### Can education help poverty reduction through youth labour force's integration into the growing economy

#### 8.1 Education, unemployment and the youth population

An 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 power and therefore their employment prospects and the question of educated unemployment deserve special attention.

Table 8.1 presents data on educated unemployment. Data shows 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 class I-X educated women and among SSC/HSC holders increased manifold during 1996 to 2000. In contrast, the unemployment rate among the male labour force with SSC and HSC education declined during this period. The supply of educated women substantially increased during this period. This has been made possible through the provision of incentives through scholarship and other measures. There has not been commensurate increase in the employment opportunities for this group of educated boys and girls. These two forces together have resulted in a rise of unemployment among the educated.

Unemployment rates by age groups show (table 8.2) high unemployment rate among the young workforce.<sup>20</sup> There is significant difference in the youth unemployment rate among the male and female labour force. The unemployment rate is high among girls aged 15 to 24 years whereas; among the male labour force the highest unemployment rate was observed among the 25 to 29 year age group (table 8.2). Between 1995-96 and 1999-2000 the unemployment rate among the young male labour force declined while unemployment rates among girls of young age have increased manifold.

#### *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 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 shows 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.

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<sup>20</sup> Educated unemployment rate has been reported to be high in most South Asian countries (Mahbubul Haq Human Development Centre 2004).

Worse performance of educated persons from poorer groups is due to a number of weaknesses. Poor boys and girls, on average show worse 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, yet inadequately qualified.

FGD sessions and case studies were conducted among such boys and girls in the age ranges of 17 to 22 years.<sup>21</sup> Discussions centered on the questions of what type of employment (hired 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 earning reveals the social wastage of youthful labour power. If appropriately manoeuvred, these unemployed persons may provide a smooth 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.

- (a) There are two types of young persons: (i) those with poor school performance (was unsuccessful in SSC examination or dropped out without sitting in the examination) 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 attainment between the groups varies to a significant extent. Those who dropped out without an SSC certificate claimed that the family's poverty had 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 safely 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 the 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 we initiated the discussion is

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<sup>21</sup> 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.

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 a small amount of money and there may be scope for mobilizing funds from microcredit institutions. The lack of experience and relevant business skill emerged as the binding constraint in most cases. Most of them do not possess a specific or even general skill for economic activities. One girl said that she has tailoring skills but not adequate enough for setting up a shop.

- (c) Having identified skill and knowledge about business techniques as the relevant constraints, probing was done on 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 availability of supply of specific courses, it was found that such awareness is lacking. Various government organizations 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 clientele. The areas where the FGD sessions were held are within 30 kilometres of Dhaka city and within 10 kilometres of the local district headquarter. Yet there is lack of awareness about the availability of training programmes. The situation in more interior regions is likely to be worse. Our assessment is that 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.<sup>22</sup> Most of them stated within the range of taka 2000 to 2500, with one or two expecting taka 3000. They were quite realistic, as no one mentioned above taka 3000. 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) and it is barely sufficient to maintain a family of two persons.
- (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 the boxes below. The varied experiences reveal that there are valid reasons for frustration and many of them used harsh language to voice such frustrations (Box 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 have 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

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<sup>22</sup> 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.

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.

Most of these young persons do not have definite plans about their future. 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 the boxes.

**Box 4**  
**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 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 3<sup>rd</sup> 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 years 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 his salary is taka four thousand which is higher than the expectations of those who did not pass SSC/HSC.

**Box 5**  
**Views and wishes of unemployed youth:**  
**Results of FGD sessions among school dropouts**

- I want any job. I do not get a job because I do not have a SSC degree. 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).

**Table 8.1**

**Education and unemployment (unemployment rate: per cent)\***

Education	Male					Female				
	1990-91	1995-96		1999-2000		1990-91	1995-96		1999-2000	
	(a)**	(a)	(b)	(a)	(b)	(a)**	(a)	(b)	(a)	(b)
No education	1.0	0.6	1.3	0.9	9.5	1.6	0.8	3.0	2.5	9.5
I – X	3.0	2.9	4.0	5.7*	4.2	2.1	3.3	12.6	15.0*	12.7
SSC/HSC	3.2	9.7	13.6	8.6	8.5	4.6	12.9	21.6	26.6	26.6
Degree +	3.0	8.4	10.6	6.8	9.5	2.2	15.2	16.8	14.3	19.5

\* Estimated, \*\* for 10+ years.

For labour force aged 15 years and above, (a) Extended definition, (b) Usual definition.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 8.2**

**Unemployment rate by age group by 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
30-34	1.1	0.3	1.1	0.8
35 +	0.4	0.7	0.3	1.2

Note: Usual definition.

Source: LFS (various years). Bangladesh Bureau of Statistics (BBS).

**Table 8.3****Extent of unemployment plus underemployment by education and poverty status**

(Per cent underemployed plus unemployed)\*

<b>Poverty status</b>	<b>Education</b>	<b>Rural</b>	<b>Urban</b>
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 (various years). Bangladesh Bureau of Statistics (BBS).

## Chapter 9

### Employment and labour market policies for poverty reduction

#### 9.1 Choice of growth strategies

Employment routes to poverty reduction may be chosen from the following suggestions.

- The sectoral pattern of employment growth, the trends of wage rate and return from self-employment and associated constraints and risks imply that the strategy of poverty reducing growth must try to accelerate industrial growth with scope for using modern technology and for creation of regular jobs. This will require various forms of incentives.
  - Incentives should not aim only at raising present capacity utilization but new enterprises must be encouraged. Special incentives must go to entrepreneurs of large scale industry in locations other than the major towns.
  - Growth of hired labour based enterprises in regionally dispersed growth centres 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 the growth centres. A few growth centres 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 centres and rural hinterland may help in direct and indirect employment generation.
  - 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 both local demand and may also be supplied to urban centres. Nursery items, furniture and wood products, services like typing etc. and other non-conventional activities may be encouraged. Such programmes can link formal schooling with development of entrepreneurial skills.
  - 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 centres in the peri-urban areas are expected to draw upon these sources of surplus labour. Detailed suggestion on development of vocational and technical training has been presented in section 9.3.

- Employment growth must consist of a larger proportion of paid employment and especially regular employment. Many studies on policy suggestions for employment creation focused on mainly rural non-farm activities. But the emphasis should be on enterprises using hired labour along with family labour. Purely family labour-based activities have less scope for technology upgrading 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. 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 non-farm sector generates better paid employment opportunity. This is an important route through which RNF can help in poverty reduction.
- Self-employment can still perform an indirect role in poverty alleviation through
  - Provision of supplementary earnings
  - Through 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 family labour based employment for the poor some specific suggestions are listed below.
  - Most enterprises are vulnerable to risks, which cannot be afforded or overcome by poor households. This implies a low on negative expected return for many activities. Risks are higher for poor households whose current assets are inadequate to provide protection to the financial/physical capital. These enterprises must be provided with micro insurance facilities.
  - Rate of interest on microcredit (MC) is high and many activities are not profitable at those high rates. Moreover, instalments on MC are often repaid in fortnightly/monthly instalment and therefore do not allow investment on fixed capital which can bring return after a few months. Therefore, MC institutions should reconsider their terms of lending so that credit can be utilized for more profitable activities.
  - Role of infrastructure can be critical for expansion of self-employment. Well planned 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
  - Skill generation and properly planned training can play a critical role in development of self-employment. Section 9.4 provides detailed suggestions on this.

## **9.2 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 earning opportunities, both short term and long term interventions are necessary. A number of suggestions have been put forward in Rahman (2003). Here we add specific suggestions for different groups of poor women.

### *Women from marginal poor groups*

This group of women already has 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 product. 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 subsidized facilities for the NGOs, which can be used to provide 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. Subcontracting to female home based workers can also contribute to enterprise competitiveness. Women willing to engage in subcontracting may be trained by respective employers.

### *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. The number of such women is much larger in villages at the pockets of severe intensity of poverty for example, in north western districts. In these areas, women are desperate to obtain wage employment. Many of the male members of such household migrate to other areas where wage employment may be obtained. In these areas special employment programmes for women should be planned. Women (or even men) who are prepared to work for wage rates slightly below the closest available private sector employment (so that these activities do not have oversupply) should be given opportunities of such employment. 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.

## **9.3 Terms of wage employment**

Policies for employment generation through informal sector non-farm activities must include the concerns of workers' protection. Low bargaining power of poor workers in such enterprises push them into adverse terms of employment. Ensuring incentive for the entrepreneurs and support for workers will require innovative ways of maintaining balance between these forces. Protection of workers' rights in informal enterprises will be difficult if the advancement in this respect is slow in the areas of formal sectors. Protection of workers' rights in the informal sectors is integrally linked with the informal sectors' needs of proper legal framework and recognition. With the expansion of wage labour based RNF, these issues will assume importance.

Protection of workers rights is important especially in the case of employment of vulnerable groups, e.g. young unmarried women, whose choice of work is not determined by their own acceptability of wage/salary, working conditions but by others (parents, husband etc.) needs.

In this respect it should be highlighted that ensuring gender equity, both in family employment and self-employment should be a component of working condition issues. Therefore, in addition to policies for expansion of employment for women, the quality of employment must be improved. Pro-poor and labour intensive growth is not necessarily gender sensitive.

#### **9.4 Training and skill generation**

Well-designed policies to improve the quality of labour force and commensurate policies to create matching employment opportunities can provide effective stimulus for simultaneous progress with the tasks of economic growth and poverty alleviation in Bangladesh.

The deficiencies of skill and inadequacies of educational attainment as factors behind un/underemployment 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 an 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.

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 1000 per month for 3 to 6 months. Subsequent groups of trainees may be ready to pay a larger amount if the returns to such training is demonstrated by handsome returns. If immediate absorption of trained person into jobs with salary ranges of taka 2000 to 3000 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 unsuccessful 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 a semi-skilled or skilled labour force cannot have a good prospect.

- A large component of short term training should therefore aim for self-employment. This will require a combination of skill training and management training. Training organizations 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 organizations 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 is those who intend to go abroad. Again, the field of training must be decided in consultation with the recruiting agents.

#### *Medium and longer 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 gradually higher skills should be 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 for 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; and, 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 and Bangladesh Open University to offer evening courses using existing technical and vocational institution 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 a job. In addition, there should be scope for vocational degree holders'

mobility into other tracks of studies. Moreover, by imparting more in-depth 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.

- 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 (VTI). One study reports that in VTI 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 in-depth 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.

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