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# THE LABOR SECTOR AND U.S. FOREIGN ASSISTANCE GOALS

## BANGLADESH LABOR SECTOR ASSESSMENT EXECUTIVE SUMMARY



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# EXECUTIVE SUMMARY

With its trade ties to the U.S., enormous demographic pressures, moderate Muslim views, and presence in the mixed neighborhood of South Asia, Bangladesh's stability and prosperity are important to U.S. foreign policy interests. U.S. foreign assistance is helping Bangladesh build its democratic institutions, reduce poverty through broad-based economic growth, and improve its human capital. Labor plays a prominent role in the country's political and economic direction and is identified as one of the key policy areas in Bangladesh's Poverty Reduction Strategy (PRS). Bangladesh has struggled over the years to comply with a number of international labor rights standards and norms, most notably in the areas of freedom of association and child labor. It has also suffered from a weak industrial relations machinery and poor enforcement of its labor laws. Accordingly, Bangladesh's industrial sectors have been affected over the years by worker unrest and industrial instability. The failure of Bangladesh to achieve a well-functioning labor sector and its inability to secure the labor rights of its citizens has important ramifications, not only for the intrinsic development objective of protecting workers rights and well-being, but also for achieving Bangladesh's overall development objectives more generally.

The purpose of this assessment is to better understand the nexus of labor rights, organizations, markets, and institutions in Bangladesh within the political economy of Bangladesh in order to develop strategic guidelines for actionable programmatic recommendations. The assessment is also designed to frame the recommendations in ways that maximize the potential impact of labor-related programming on other Mission Strategic Objectives (SOs). To this end, the team met with representatives from the USG Mission, labor unions and federations, employers, employer associations, workers, buyers, government ministries, think tanks, civil society organizations, other donors, and international organizations. Interviews were conducted in Dhaka, Khulna, and Chittagong. The fieldwork for this labor assessment was conducted between August 18–28, 2008.

The advancement of labor in Bangladesh has been historically affected by competing interests among elites who, on the one hand, benefit from the support of labor but, on the other hand, seek to preserve the economic interests of industrial elites. Within this context, the labor movement has historically been somewhat successful in advancing some labor interests. Labor's efforts to resist privatization of state-owned industries, for example, have been especially important for creating present day institutions to facilitate collective bargaining (e.g., the National Wage Board), and the enactment of legislation to protect workers' rights (e.g., the 2006 Labor Act). However, the mainstream labor unions' longstanding ties to the major political parties affect perceptions of their credibility and efficacy. Ironically, political fragmentation among unions that reflects the fragmentation of the major parties has helped the state preserve elite interests while making strategic concessions to workers.

With the rise of Bangladesh's export industries and the involvement of new international and domestic advocates, labor has found new and important drivers for change. Bangladesh's highly active and large civil society, and their transnational counterparts, has been able to approach labor from different angles (women's rights, poverty reduction, etc.) in a way that recasts the role of labor in Bangladesh's political and economic life. Markets (i.e., buyers, consumers) and foreign entities (i.e., donors, governments, ILO) are also introducing new incentives and influencing the power dynamics between major domestic actors. By using economic and political imperatives, they are helping to change the rules of the game. At the same time, there are limits to the influence of these actors. Some civil society organizations (CSOs) have been colored by patronage politics and questioned as to their motivations. Additionally, some actors have

reacted to the demands of markets and foreign actors by adopting the rhetoric but operating with little change in reality.

Law, government institutions, civil society, and markets are the key components that constitute a given labor environment, and this report describes each of these sectors in Bangladesh. Bangladesh is bound by a number of international legal instruments governing labor. It is a member of the International Labor Organization (ILO) and has ratified seven of the eight conventions considered to constitute the Core Labor Standards (CLS) as specified in the Fundamental Declaration on Principles and Rights at Work. Its labor laws were recently consolidated into the Bangladesh Labor Act of 2006. In addition to this code, there is a special law governing labor relations in the EPZs. Bangladesh is not party, however, to any bilateral or multilateral international trade agreements in which there are labor provisions. However, Bangladesh is a beneficiary of the United States Generalized System of Preferences (GSP), which played an important role in the growth of Bangladesh's Ready Made Garment (RMG) sector, and has also played an important role in creating pressure for change in Bangladesh's labor laws and enforcement both at the governmental level as well as at the firm level.

While the new labor code made some significant advances, enforcement and government capacity remains weak. As a result, a range of non-state actors have filled in to address the gap in enforcement, and non-labor governmental ministries, particularly the ministry of commerce, have stepped in to fill the breach and create a variety of new labor enforcement institutions that are in response to international demands for improved working conditions and labor law compliance.

Bangladesh's large and rapidly growing labor force challenges the country to focus on greater job creation. The labor force is expected to dramatically increase by 10–20 million over the next decade and significantly more so if female participation rates increase. However, current issues related to illiteracy, low-skills, and high inefficiency within the labor force constrains job creation and, ultimately, poverty reduction efforts. There is no single national minimum wage in the 2006 labor law. Instead, legal minimums have been set for different sectors and skill levels. These new levels are a result of the Tripartite Agreement reached by government, workers/union leaders, and owners/employer associations in 2006 after a wave of dramatic labor strikes. The new levels are revisions of the minimum wage set more than a decade ago. However, due to weak enforcement, minimum wages are not uniformly in place as they should be.

High population density in Bangladesh has translated into a high number of landless or “functional” landless (those with very small land holdings that are not very productive). In 1996, the number of landless was estimated at 60 percent of the population. Labor is the most important productive asset for these households struggling out of poverty. Migration thus becomes a very important strategy for workers who seek to employ their only valuable asset.

Despite the country's history of dramatic political contestation and unrest, Bangladesh's business environment has remained relatively attractive to investors. This paradox is likely explained by the considerable financial and non-financial incentives to lure investment and the government's general *laissez faire* approach to business. This combination allows investors who can operate through complete vertical integration to side-step domestic problems. The Export Processing Zones (EPZs), furthermore, are given distinct incentive packages that include provisions to compensate for critical problems in the rest of the country, such as reliable power sources and stringent policies to ensure security.

Bangladesh also has a relatively flexible labor market compared to other countries in the region (i.e., employers are able to hire and fire with more ease than the norms in the region). Bangladesh is still one of the cheapest and most abundant labor markets in the world. While salaries in the EPZs are generally higher than their counterparts in the rest of Bangladesh, the monthly salary is still significantly below that of other competitors at \$30 versus \$64 in Indonesia, \$80 in Vietnam, and \$100 in China. These factors

help most of Bangladesh's main export industries stay competitive and the EPZs to operate at near capacity.

But total factor productivity's contribution to economic growth has been less than 0.5 percent (World Bank 2006). Firms interviewed in a forthcoming World Bank Investors Survey identified the lack of skilled workers as the #2 constraint to investment in Bangladesh (power being the #1 constraint). By BGMEA's estimates, Bangladesh's productivity is at 32–38 percent vs. 72–78 percent in China and 68–72 percent in Sri Lanka. Despite extensive underemployment, Bangladesh's labor market suffers from a shortage of skilled and semi-skilled workers.

Bangladesh's progress in its social and economic development over the last decade also extends to progress in gender equality. A recent World Bank study, for example, has claimed that a change in societal norms and values concerning women and girls has placed the country in a noteworthy position among the developing countries in advancing gender equality and enhancing the status of women (World Bank, March 2008). Bangladesh's achievement in gender equality is based at least in part on a higher labor force participation rate (LFPR) of women in the formal sector. With this increased LFPR, however, come challenges to ensure that women's work lives in fact lead to greater human flourishing and to the broader goals of development. Some of the issues identified in this report include wage discrimination, health, and lack of trade union representation.

In conclusion, the assessment describes several points of leverage to inform USAID/Bangladesh's labor programming. **First** is the evolution of new forms of labor governance that we call "networked governance." This includes new forms of non-state regulatory mechanisms, such as NGOs, employers associations, MNCs, and Multistakeholder Initiatives, as well as new arrangements of government ministries that fill gaps left by the Ministry of Labor. The international demand for improved labor standards has been a significant driver in improving worker's rights protections and labor conditions. **Second** is the importance of courts and alternative dispute resolution, particularly in the context of a caretaker government that has exercised emergency rule and cut down on trade union freedoms. **Third**, the team has noted potential growth in local-level labor governance mechanisms, particularly in the informal sector. **Fourth**, there is substantial room for improvement in productivity and competitiveness by Bangladesh's industries, and room to explore linkages between productivity and competitiveness and social compliance. **Finally**, there is a need to pay attention to specific population of Bangladesh's workforce, such as women, youth, and migrant worker populations. These points are not meant to exclude other areas of focus, or suggest that these should be pursued at the exclusion of others, but are rather intended to highlight particular dynamics in the labor sector that might be particularly illuminating.

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