



Analysis of the business environment in Least Developed Countries

Bangladesh

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Bangladesh

Region
South Asia

Population (2021)
169 356 251

Demographic growth
1.1%

Average income (2020)
1,968 USD

Human Development Index:

With a current value of 0.661, it ranks 129 out of 191 countries and places among medium human-development countries.

Regional economic community

Asia-Pacific Trade Agreement, South Asian Free Trade Area

Background information

Although the agriculture sector employs 40.6 per cent of the population in Bangladesh, it accounted for only 13 per cent of the Gross Domestic Product (GDP) in 2020, according to the Bangladesh Bureau of Statistics (BBS) and World Bank data. The industrial sector accounts for 30 per cent of GDP and employs 20.4 per cent of the population, primarily in the ready-made garment (RMG) and light manufacturing sectors. The services sector accounts for 53 per cent of the GDP and employs 39 per cent of the population.

More than 80 per cent of Bangladesh's export economy is dominated by RMG manufacturing, yet **the country remains largely rural**, with an urbanisation rate of only 38.2 per cent. Millions of women are directly employed in the garments manufacturing industry and have made the country one of the leading garment exporters in the world. However, much remains to be done regarding gender equality in this sector. The International Labour Organization (ILO) research shows that women's representation in managerial and leadership positions in the RMG sector remains low¹.

Bangladesh has enjoyed consistent annual GDP growth of over 6 per cent, fuelled by an expanding industrial base led by the RMG industry. 2020 was exceptional as the economy slowed because of the Covid-19 outbreak. **Unfortunately, informality continues to be a major challenge in Bangladesh, with informal employment estimated at 85.1 per**



cent of the total number of jobs in the labour market.

Mobile technology is the primary form of internet access in Bangladesh. The number of mobile phone subscribers in Bangladesh reached 171.85 million in January 2021. The Bangladesh Telecommunication Regulatory Commission (BTRC) estimates total internet subscribers at 117.3 million as of May 2021, of which only 9.8 million use broadband connections while the rest are mobile internet users. However, only 28.8 per cent of Bangladesh's total population subscribes to mobile internet services, revealing a usage gap of 67 per cent. Wide-ranging operators' investments in network infrastructure have taken 4G coverage in the country to 95 per cent as of December 2020², supporting an increase in **e-commerce**.

Dhaka, the capital, has emerged as a freelance information technology (IT) and IT-enabled

¹ ILO 2020: Understanding the Gender Composition and Experience of Ready-Made Garment (RMG) Workers in Bangladesh

² Kenechi O. Achieving mobile-enabled digital inclusion in Bangladesh.GSMA (2021)

services outsourcing (ITES) centre. More than 1500 IT and software-related companies are registered in the country, which has created employment opportunities for more than one million people. Bangladesh's information and communications technology (ICT) exports exceed one billion US dollars. With increased adoption, there is immense potential for further employment in areas such as Fintech, enterprise software, mobile applications, and hardware manufacturing.



Informality continues to be a major challenge in Bangladesh, with informal employment estimated at 85.1 per cent of the total number of jobs in the labour market.

Bangladesh also has large pharmaceutical, footwear, and agricultural-processing industries, providing various grand opportunities to continue to diversify its exports.

The country has made excellent strides as a South-Asian supply chain hub, and its continued success will allow Bangladesh to graduate from the LDC category by 2024.

Challenges faced by the private sector

- Most **agricultural production** in Bangladesh is generated by low-productivity smallholder farming, which lacks new agricultural technologies to help increase productivity. The sector faces several challenges, including a lack of arable land, land degradation, and a shortage of water sources. Floods, cyclones, and drought also affect agricultural productivity levels and incomes.
- There are many **hidden costs and undocumented expenses** associated with running a business, including corruption in government offices, uncoordinated and unfair levies from local authorities, and **procedural difficulty of formalisation contributing to growing informality**. Normal business activities

such as banking, immigration procedures, and branch office licensing permissions may be slowed or stopped entirely, further affecting the cost and time of doing business.

- The 2016-2017 Labour Force Survey estimated that out of the 60.83 million employed people, 51.73 million (85.1 per cent) work in the **informal sector**. More women are estimated to be involved in informal activities (91.8 per cent) compared to 82.1 per cent for males. The availability of jobs in the formal sector has not kept pace with the growth of the labour force³. A labour force with low levels of education and skills has been one of the principal causes of low productivity in most sectors, including the urban informal sector.

- The **lack of coordination** and transparent governance at ports and seaports affects the efficiency of services, which impacts the cost and time of doing business.

- Currently rated 147th out of 180 countries in the Corruption Perceptions Index, corruption in Bangladesh is widely perceived to be endemic at all levels of society, discouraging investments and inhibiting economic growth.

- **The government has invested in wide-reaching major infrastructure efforts over the past decades**, increasing transport connectivity and access to energy to nearly 95 per cent of the population. Further steps are needed to improve the reliability and quality of electricity, and inadequate power transmission and distribution systems, while maintaining affordability to support the continued growth of industry and commerce in Bangladesh. **Rising traffic levels and a clogged transport system are among Bangladesh's largest business growth and development inhibitors**, particularly in export-oriented industries. According to the Dhaka Chamber of Commerce and Industry, Bangladesh must invest nearly \$25 billion annually through 2030 to meet its infrastructure needs.

- The use of mobile money rapidly grew during

³ lightcastlebd: Employment in Bangladesh: How to Tackle the Informal Sector Conundrum.(2020).

the pandemic, providing more opportunities for those without a bank account. The number of registered mobile banking clients sharply increased to 99.34 million in December 2020. However, in rural areas, many people, especially smallholder farmers and low earners in Bangladesh, do not have access to formal **financial sources** due to ignorance, collateral requirements, and complex and lengthy loan-sanctioning procedures⁴. The growth of e-commerce has been inhibited by the lack of a robust online transaction system, the prevalence of online fraud, low usage of credit and debit cards, the lack of a privacy policy, and the unavailability of or restrictions on major online transaction sites.



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Private sector policy recommendations

- The government should enhance and develop efficiencies in airports and seaports. This could be achieved by bringing the management of these key infrastructures to private entities who invest towards the automation of ports and develop/ train locals in handling new modern technologies. This will also create more administrative, maintenance and engineering jobs.
- The government should engage and support private sector stakeholders, such as the Bangladesh Employers Federation, in developing and providing enterprise-based skills training for entrepreneurs in the informal sector, ensuring that the training model targeted at skill development is comprehensive, dynamic and in accordance with labour market trends.

- Skills development initiatives should be blended with entrepreneurship training and financing opportunities. There should be a preference for young people and women in the informal sector, which means focusing on small and medium enterprises (SMEs) needs and capacity building.
- Encourage private sector participation in education by funding research partnerships, technology and knowledge transfer between companies and universities. This will spark innovation and help graduates develop relevant and employable skills.
- **Develop fair recruitment and migration policies** to curb talent flight, as a growing number of young people are emigrating from the country.
- ICT sector: The government needs to partner with the private sector and enable the following fiscal and regulatory policies that support infrastructure deployment, skills development, and employment⁵.
- Engage private IT education companies to equip individuals with digital knowledge and skills through a comprehensive, evidence-based framework focused on competency areas and proficiency levels.
- Education policies should integrate teaching computers in schools at primary and basic education levels.
- Reduce and simplify the discriminatory sector-specific taxation on mobile network operators.
- Existing economic zones should be expanded and provided the infrastructure to encourage ICT investments.
- **The government should pursue a deregulation policy by reducing taxes**

⁴ Most Nilufa Khatun, Sandip Mitra, Md Nazirul Islam Sarker. Mobile banking during COVID-19 pandemic in Bangladesh: A novel mechanism to change and accelerate people's financial access[J]. Green Finance, 2021, 3(3): 253-267. doi: 10.3934/GF.2021013

⁵ Kenechi O. Achieving mobile-enabled digital inclusion in Bangladesh.GSMA (2021)

and State regulations that force up labour costs and prevent flexibility, which acts as a disincentive to formalisation⁶.

- More initiatives that facilitate access to finance in the informal economy will provide the government with opportunities for taxation and give businesses and entrepreneurs access to finance banking, subsidies, and other benefits. This could be achieved by recognising informal elements of businesses as a transitional phase, hence, putting Informal SMEs at the intersection of formality and informality.
- Engage the private sector in developing export expansion, domestic demand expansion and import substitution strategies.
- Special economic zones should be established in underdeveloped regions or less

industrialised districts, offering some subsidies. This creates opportunities for employment in pharmaceuticals, footwear, construction, agro-processing etc., in these regions.

- The government should engage and provide financing to the private sector in developing strategies that strengthen existing labour-intensive manufacturing subsectors by promoting product diversification and stimulating an up-market move in the traditional sectors, given emerging opportunities in the global market. Industrial productions can be diversified into less technologically intensive products such as paper goods, mobile phone accessories, umbrellas, basic lighting, tiles⁷, etc.
- Elimination of taxes and duties on imported raw materials for production purposes.

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⁶ Mujeri, M. Informal economy and economic inclusion Policy options for Bangladesh. The Daily Star.(2020)

⁷ Khaled Chowdhury. Bangladesh needs to diversify its export basket. (2018)



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