

Editor's Desk

The August 2019 issue of *Thinking Aloud* focuses on "Youth budget and the demographic dividend". The first page article titled "Unleashing the demographic dividend through investing on youth in Bangladesh" accentuates on utilizing the full potentials of youth population. Bangladesh being at the middle of the period of demographic transition, is yet to reap the benefits of its demographic profile. Given the gap in policy efforts to prioritize public spending human capital development with youths being in the forefront, it is crucial that the country prioritize youth development in its national plans and policies as well as in resource allocation to reap the benefits of demographic dividend in coming years. The second page article on "Revisiting public expenditure on education in light of demographic dividend in Bangladesh" stresses that although the added human capital of the youth gained through education and training is considered as the main driver of growth acceleration during the period of demographic dividend, public expenditure has not been adequate in Bangladesh to boost the education sector. Traditionally, the education budget of Bangladesh is mostly dedicated towards operational or non-development budget. Furthermore, the major share of the development budget is concentrated in the development of physical infrastructure as well. In order to actually propel growth and benefit from the demographic dividend, public expenditure has to be prioritized in the area of research and quality enhancement. The third page article titled "Business environment and demographic dividend in Bangladesh: Where do they merge?" discusses although there is concentration on developing health and skills of the youth for demographic dividend, little emphasis is provided to the business environment in Bangladesh which is where the dividend can maximize its potential. The fourth page covers the events that took place in the month of July.

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Unleashing the demographic dividend through investing on youth in Bangladesh

Selim Raihan, Sayema Haque Bidisha and Zubayer Hossen

The economy of Bangladesh has steadily grown over the last two decades. However, utilizing the potentials of youth population remains a big challenge. The country, being at the middle of the period of demographic transition, is yet to reap the benefits of its demographic profile. Labour Force Survey 2016/17 reveals that, although as high as 31.6% of the total labour force are youth, aged between 15 to 29 years, youth unemployment rate of 10.6% is much higher than the national average of 4.2% with female unemployment rate much higher than that of males. There is a high degree of unemployment among the educated youth too, as 13.4% of unemployed youths have tertiary education and another 22.3% have higher secondary education. Furthermore, the rate for youth not in education, employment or training (NEET) is found to be 29.8%, with this rate for the female youths is as high as 49.4%.

The dominance of informal sector employment and lack of decent work are some of the notable predicaments of youth employment scenario, where the youth females' are lagging behind their male counterparts. Though there are several youth-focused policies e.g. National Youth Policy (2017), National Skill Development Policy (2011) and 7th Five Year Plan, most of these policies are argued to lack detailed work plan for implementation as well as any effective financing strategy.

The demographic dividend is not an induced phenomenon rather it is a structurally given time bound phase, which requires 'quality' human resources endowed in terms of education, health and skill. Prioritizing budgetary allocation in social sectors such as health, education and social safety net is essential to maximize the plausible benefits of demographic transition. Market solutions are inadequate in this regard and therefore, significant investment from the state is a pre-requisite. Looking at the allocation of the national budget of 2019-20, it can be inferred that, although many initiatives have been taken and/or emphasized in the budget, the budget lacks adequate unequivocally youth-targeted programmes. Furthermore, shortfall of budget allocation in relevant youth-centred ministries is another constraint for youth development. Besides, the rate of implementation of the annual development programmes of the key ministries has also been found quite low. While examining social sectors, such as education and health, budgetary allocation proved to be insufficient compared to the required amount to achieve the Sustainable Development Goals (SDGs). In FY 2019-20 national budget, the proposed allocations in proportion to GDP for social sectors such as, health, education and social safety net are 0.9%, 2.1% and 2.6% respectively, which are grossly inadequate. Studies have indicated that to achieve SDGs by 2030, Bangladesh has to increase the public expenditure on health, education and social safety net in

proportion to GDP by 3 to 4 folds from their current levels.

Given the gap in policy efforts to prioritize public spending for human capital development with youths being in the forefront, the country must prioritize youth development in its national plans and policies as well as in resource allocation to reap the benefits of demographic dividend in coming years. To prioritize resource allocation for youth development, initiatives like 'youth budget' can be an important policy instrument.

The budgetary allocation should focus on specific projects and strategies dealing with the mismatch of skill prevalent in the labour market of Bangladesh. The information asymmetry regarding the prospect of different skills needs to be alleviated by steps such as collaboration between TVET and standard schooling, short courses on TVET in the standard system, and overall strengthening of collaboration between vocational institutes and industry. It is high time to re-evaluate the indicators of the success of the education sector and critically examine the process of absorbing the drop-outs into the labour market. Education and training, while coupled with research can prepare the nation for the fourth industrial revolution.

Demographic dividend cannot be maximized without addressing the gender gap. Investing in SRHR (Sexual and Reproductive Health Rights), nurturing the care industry and incentivizing establishment of daycare centres at the workplace, the extension of maternity and post-maternity leave, introduction flexible and part-time working hour for the private sector can close the gender gap to a great extent. Increasing representation of females at the tertiary level of education and translating that representation into the labour market participation requires a holistic approach like preventing child marriage and early pregnancy.

Although Bangladesh is going through a demographic transition, converting its youth population to dividend necessitates timely and effective steps from the government. Such policies require targeting both demand and supply-side bottlenecks, which should include policies related to greater allocation in social sectors, effective coordination of industry and educational curriculum to resolve the mismatch in skill, and gender-specific policies to bring a greater proportion of women in the mainstream labour market etc. Though the demographic transition is a natural phenomenon, translating this into an accelerated economic growth to turn it into dividend will require a rigorous implementation of well-thought-out policies. Conclusively, the importance of good governance to utilize the demographic dividend cannot be overemphasized.

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Revisiting public expenditure on education in light of demographic dividend in Bangladesh

Rafiqua Ferdousi and Md. Tuhin Ahmed

There has been a long standing debate among economists and social thinkers regarding the influence of population change on economic growth. The main ideas surrounding this debate over the last few decades are that population growth either restricts, promotes, or is independent of economic growth. However, the arguments mostly focused on population size and population growth alone and overlooked the issue of the age structure of the population. Economist David Bloom and David Canning later pointed out that change in fertility or mortality rates can drastically change the population age structure and this has significant implication on the economic growth of a country. They have further explained this scenario and termed it as the 'Demographic Dividend'. They argued that when the share of the dependant younger population declines in a country, the increased share of the working-age population becomes able to engage themselves in the labour market. This creates a window of opportunity for any given country to transform the overall economy. With fewer children to support back home, the added labour force can then drastically drive the growth engine forward.

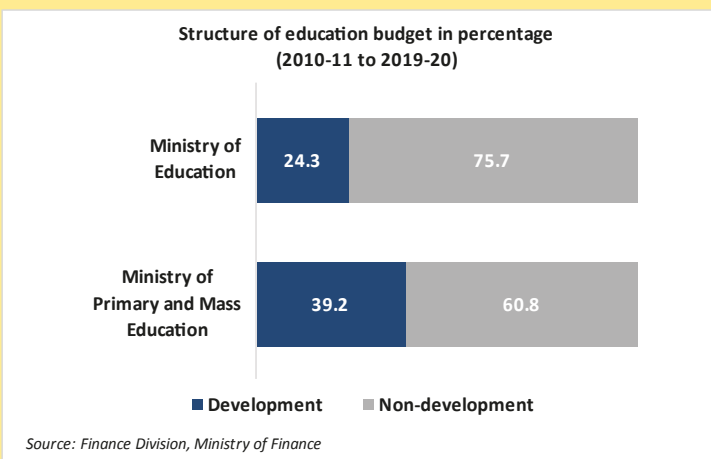
In Bangladesh, the fertility rate has declined substantially over the last four decades and Bangladesh now has the occasion to utilize this sporadic incident. Nonetheless, a closer look at the labour market of Bangladesh reveals that, the labour force participation rate is only around 58.2%. According to the Labour Force Survey 2016-17 conducted by the BBS, working-age population between the age of 15 and 64 years stands at 109.1 million in Bangladesh and out of 109.1 million working age population, only 60.8 million people are actually employed compared to 2.7 million unemployed and 45.6 million inactive or discouraged populations. On the other hand, there are around 41.3 million working-aged youth between the age of 15 and 29 among which only 20.1 million are in the labour force. Furthermore, among the overall working-aged youth, only around 17.1 million are employed contrary to 2.2 million unemployed and around 12.3 million are 'Not in Education, Employment or Training' (NEET).

In order to tap into the demographic dividend and harness the benefit of added labour force, a country must adopt appropriate plans and policies that enhances its human capital and creates employment opportunities. Because, the main driver of growth acceleration during the period of demographic dividend in a country is essentially the added human capital of the youth gained through education and training. However, the labour market scenario of Bangladesh points out to a rather gloomy scenario as Bangladesh is yet to engage a large sum of youth in productive

activities. If Bangladesh fails to develop the capacity of its youth and simultaneously match the labour market opportunities with the augmented human capital, then it might be highly likely that the current demographic dividend of Bangladesh will turn into a missed opportunity.

Although, the importance of education and skill development for economic growth has been well recognized in the seventh five-year plan of Bangladesh, a little has changed over time in terms of investment priorities and practical initiatives to boost the education sector. A closer inspection at the public spending on education in Bangladesh reveals that the allocations have been stagnant at around 11 to 12 percent of total budget. Likewise, public spending on education as percentage of GDP has also remained far below the global average over the last decade in Bangladesh. Thus, it appears that the education sector is a rather neglected area in Bangladesh.

The responsibility of managing the education sector is shared by two separate ministries in Bangladesh namely the Ministry of Education (MoE) and the Ministry of Primary and Mass Education (MoPME). The Ministry of Education is responsible for the supervision of the secondary, higher, technical and madrasa education and the Ministry of Primary and Mass Education oversees the primary and non-formal education. Each year the two ministries receive separate budget which is then allocated for the operation and development of different educational levels.



Traditionally, the majority share of the education budget is allocated for the primary and secondary level in Bangladesh in contrast with the tertiary level. Although, the number of students tend to be higher in the lower levels, increased attention is required to further strengthen the tertiary education in Bangladesh as it plays critical role in promoting growth through research and innovation.

The allocation in each level of education is further divided into recurrent budget and capital budget. The recurrent or operational budget tracks ongoing revenues and expenses that occur on a regular basis. It includes the expenditures such as office supplies, wages, utilities, rent, lease payments and taxes. On the other hand, the capital or development budget is mainly dedicated towards growth and improvement of that level. Though, in case of Bangladesh it can be observed that the operating budget takes up the major

share of the total education budget and a relatively smaller portion is usually left as the development budget. Consequently, activities concerning the enhancement of the education sector are often constrained. Similarly, insufficient allocation of capital budget is also an obstacle towards crafting a well-developed vocational education system. This again poses a threat towards the realization of demographic dividend as both policy makers and academics have recounted countless times that Bangladesh must focus on economic diversification and the creation of skilled labour force to sustain its export led growth.

Further examination of the development budget allocated overtime for the education sector uncovers that the number of direct investment concerning the enhancement of learning outcome or quality of education is considerably lower than the number of initiatives dedicated towards the development of physical infrastructure. While, investment in tangible infrastructure might be necessary in some cases, given the current reality of Bangladesh, this alone is not sufficient to propel growth without additional investment in the area of research and quality enhancement. In fact, most of the successful economies of the world have prioritized investment on quality education and innovation during the phase of demographic dividend. This also holds for the 'Asian Tiger' economies. According to UNFPA, the Republic of Korea saw its per-capita gross domestic product grow about 2,200 per cent between 1950 and 2008 and undoubtedly, one of the major reason behind this rapid development was the amplified human capital of the nation.

Experts now suggest that the advantage of the demographic dividend in Bangladesh will phase out between the years 2035 to 2040. With an increasing life expectancy and low savings-investment rate, chances are there that the current demographic dividend of Bangladesh may ultimately turn into a disaster when the bulge of young people will age in a country with a weak socio-economic system and fewer number of supporting working age population. Nevertheless, a number of actions may ameliorate the threats of demographic burden for Bangladesh. These include: immediate measures by the government to prevent leakages in the system, additional revenue generation to increasing public spending in priority areas of overall human capital development, initiatives to engage the relevant stakeholders and increase the labour market participation of the youth. Finally, the policy makers should also focus on formulating a robust social security system. Therefore, a collective effort has to be generated for mobilizing resources and improving the education and labour market opportunities of the youth of the country without any further delay.

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Business environment and demographic dividend in Bangladesh: Where do they merge?

Towhid Iqram Mahmood and Nadeera Sultana

Along with the rising South Asian countries, Bangladesh is one of the highest growing economies in the world. Bangladesh, with this steady economic growth, is now experiencing a period of demographic transition. In the current period, the demographic structure of Bangladesh is in a stage when birth rate is declining accompanied with a declining death rate. This results in a lower age dependency ratio and hence, there is an increase in the ratio of working age to non-working age population. Reaping the benefits from this age structure is defined as demographic dividend. Now, to take the advantage of demographic dividend, Bangladesh must utilize its human resources. With a share of 19.36% youth population aging 15-24, Bangladesh needs to prioritize the provision of opportunities those are inevitable for the growth of youth population. To do so, the country needs to create employment opportunities as well as proper business environment for the young entrepreneurs. But recent trend does not show any sort of concentration in these aspects by the authorities. Taking evidence from booming economies like Vietnam, we can imply that along with concentration on amenities like education and health, it is really important to have a sound

those who moved for higher studies stay back. However, as mentioned above, different sources of information give them vivid idea about the existing opportunities to work in Bangladesh which eventually discourages them to come back. Mostly because opportunities to work using full potential and/or good business environment that is needed to utilize their potential is absent back home. A question could be asked that, what is the reason that existing business environment in Bangladesh did not work for them. We will try to provide an abstract answer to this pressing question. As we have mentioned the performance of Vietnam in managing the demographic dividend, there is a certain reason for taking the example of Vietnam. In 1984 Bangladesh and Vietnam had similar per capita GDP (\$386 and \$377 in 2010 constant US Dollars respectively). However, in about three and a half decades the scenario has changed and Vietnam's per capita GDP is 1.5 times that of Bangladesh's. Interestingly this improvement is referred to as the outcome of an investment on their youth and infrastructure. Along with that they've maintained stable socio economic conditions and improved at times. Figure 1 shows International Country Risk Guide (ICRG) rating on Socioeconomic Condition for Bangladesh and Vietnam from 1985 to 2016. It shows how Vietnam has improved on the socio economic conditions over the last few decades compared to Bangladesh. As law and order is an important determinant for a good business

growth conundrum, but in reality.

To drill through the problem with business environment, we looked into the subcategories of 'Doing Business' indicator. With no surprises at all we have seen similar scenario in each of the sub categories as the overall ranking. Table 1 shows scores from different sub-categories of the doing business indicator. For most of these, Bangladesh's performance is alarming and is not concomitant with the idea of improvement that we expect for a better economic condition in Bangladesh in near future. As the data show, the institutions in the process of business initiation is the reflection of declining interest of the youth to move towards a better institutional environment.

As one of the fastest growing countries in the world, Bangladesh should be looking to grow smoothly with steady GDP growth. Demographic dividend can place a major contribution to this achievement. But to ensure the proper utilization of human resources including the youth bulge consisting of a greater share of population, there is no way other than improving the business environment. The above discussion therefore focuses on the comparative scenario of Bangladesh in business environment. As the question of demographic dividend comes, we often talk about improving skills and health indicators. Little do we concentrate on improving the business environment which is ultimately the field to reap the fruit of the dividend. As recent budget for fiscal year 2019-2020 shows little

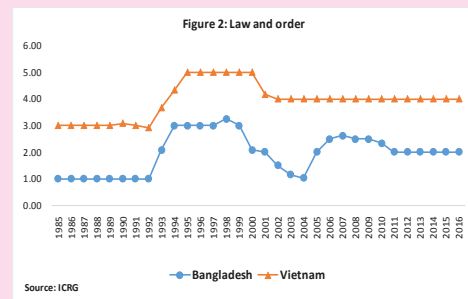
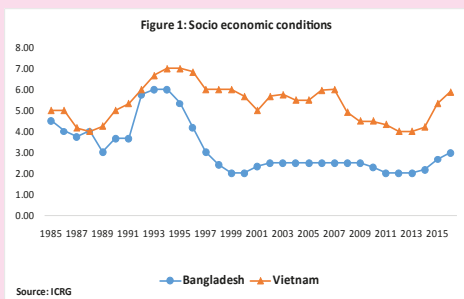


Table 1: Comparative analysis of subcategories in doing business indicator

Indicators	Banglade sh	Vietnam
Starting a business	80.82	84.82
Dealing with construction permits	60.82	79.05
Getting Electricity	30.81	87.94
Registering property	28.91	71.09
Getting credit	25.00	75.00
Trading across borders	31.76	70.83
Enforcing contracts	22.21	62.07
Resolving insolvency	28.2	34.93

Source: Doing Business, 2019

business environment to utilize the supervision of a healthy and skilled labour force.

An ideal business environment provides any kind of investors and entrepreneurs with proper incubation to run their business without any flaws and hence, helps to flourish in minimum required time. In case of development of a certain sector, many variables are associated including law and order and socioeconomic stability. These conditions provide an investor or an entrepreneur with confidence to conduct their venture without any negative and/or external pressure that can hinder the process of growth. In today's world, information is flowing from one end to another at an unimaginable speed and the growing youth population of any country is well informed than any other time period in the history of mankind. With the help of rapid supply of information and ideas, they concentrate on various innovative ventures keeping the rational of socio economic stability and law and order in mind. These aspects are important as they cannot properly utilize their skill and good health without the existence of a sound business environment. Recent trend shows that a large pool of highly skilled young citizens of Bangladesh are migrating to find better opportunities, either in the disguise of higher study or simply by getting permanent residence. It is necessary to emphasize on the fact that not all of

environment, ICRG data also shows that Vietnam has developed sharply in establishing law and order, which is a relative factor for this development of their economy (Figure 2). As our rational says not only improving skills of the population is important but to give them the proper environment to flourish, it can be viewed from these two indicators that Vietnam has maintained such rational to relish the positive effect of demographic dividend. Now, to understand the difference in Business Environment between these two countries, we will look into the 'Doing Business' indicator of the World Bank. Doing Business indicator measures the business environment of a country from several aspects. These aspects help understand the business environment of a certain country and specifically in which part of a business environment the country is lagging or flourishing. Overall ranking of Bangladesh in doing business indicator is 190 whereas for Vietnam it is 69. The score for Bangladesh according to Doing Business report 2019 is 41.97 out of 100 whereas Vietnam scores 68.36. This generalized score shows where Bangladesh stands compared to Vietnam in providing with a sound business environment. To utilize the demographic dividend, as we are asserting, Bangladesh has to concentrate more in improving this ranking, not just in numbers like the

concentration on improving the business environment specifically for the young labour force, we are being cautious in a sense that the high growth number will be redundant if we cannot provide with proper facility to the young labour force who, in turn will help to solve Bangladesh's growth conundrum. Of course, there are certain government initiatives to increase employment like setting up special economic zones in the country. But does it interest the appetite for innovation and entrepreneurial ventures? Certainly not. As government must ensure quality business environment, it should focus more at the micro levels of the problem like, provide with services to initiate innovative businesses, reduce bureaucratic hassles, digitization of registration and other administrative procedures to initiate business, encourage coalition in innovative entrepreneurship across boarder, reduce administrative hassle to get private financing like venture capital and crowd funding etc. All that needed is realizing the potential benefits of demographic dividend and reforming the existing rules and regulations to make the business environment more efficient.

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SANEM-ActionAid Bangladesh national dialogue on demographic dividend



South Asian Network on Economic Modeling (SANEM), in partnership with ActionAid Bangladesh organized a national dialogue titled "Realizing the demographic dividend: Investment on young people" on July 2, 2019 at BRAC Centre Inn, Mohakhali, Dhaka. The dialogue was chaired by Dr. Selim Raihan, Executive Director, SANEM and Professor of Economics, University of Dhaka and co-chaired by Ms. Farah Kabir, Country Director, ActionAid Bangladesh. Dr. Sayema Haque Bidisha, Research Director, SANEM and Professor of Economics, University of Dhaka gave a presentation which was followed by an open discussion. Mohibul Hassan Chowdhury, MP, Deputy Education Minister was present as the chief guest while Professor Shamsul Alam, Member (Senior Secretary), GED, Planning Commission was the guest of honor.

"SANEM SDG Centre Workshop Series – 1" held at SANEM office



SANEM SDG Centre organized its first workshop titled "Three Pillars of Sustainable Development Goals" on July 20, 2019 at SANEM office. The whole workshop was divided into three sessions - Session on SDG "Economic Issues", Session on SDG "Social Issues", and Session on SDG "Environmental Issues". The lectures were delivered by Dr. Bazlul Haque Khondker, Professor of Economics, University of Dhaka and Chairman, SANEM, Dr. Sayema Haque Bidisha, Professor of Economics, University of Dhaka and Research Director, SANEM, and Dr. A. K. Enamul Haque, Professor of Economics, East West University.

"Conversation with Dr. Selim Raihan - Part 4: Why Economics?" held at SANEM Office

Dr. Selim Raihan, Executive Director, SANEM and Professor of Economics, University of Dhaka delivered a lecture in the program titled "Conversation with Dr. Selim Raihan - Part 4: Why Economics?" on July 30, 2019 at SANEM office. The lecture was attended by students representing different private and public universities.

Dr. Selim Raihan moderated a panel discussion in the "BER International Conference for Economists 2019"



Dr. Selim Raihan, Executive Director, SANEM and Professor of Economics, University of Dhaka moderated a panel discussion and town hall meeting on "Economics policy priorities for a middle income country" on July 7, 2019 during the two-day "BER International Conference for Economists 2019" jointly organized by Bureau of Economic Research and Department of Economics, University of Dhaka. The panelists of the session were Professor Wahiduddin Mahmud, Eminent Economist, Professor Shamsul Alam, Member (Senior Secretary), GED, Planning Commission, Dr. Ahsan H. Mansur, Executive Director, Policy Research Institute and Dr. Fahmida Khatun, Executive Director, Centre for Policy Dialogue.

SANEM-IFPRI jointly organized a five-day training workshop



SANEM, in association with International Food Policy Research Institute (IFPRI), jointly organized a five-day training workshop titled "Introduction to Economywide Analysis using SAMs and CGE Models" during July 21-25, 2019 at Hotel Amari, Gulshan-2, Dhaka. Dr. Selim Raihan, Executive Director, SANEM and Professor of Economics, University of Dhaka, Dr. James Thurlow, Senior Research Fellow, IFPRI, and Mr. Angga Pradesha, Senior Research Analyst, IFPRI were the trainers. The training was attended by 27 participants from diverged background.

Top essay writers from "Youthonomics - Part 4" were awarded

SANEM's monthly essay writing competition titled "Youthonomics – Part 4" was held for the month of July on the topic "Bangladesh National Budget 2019-20: Youth's Perspectives". The winners are Md. Rakib Hossain, University of Dhaka, Fariha Ahmed, University of Dhaka, and Shithee Ahmed, Bangladesh University of Professionals. Dr. Selim Raihan, Executive Director, SANEM and Professor of Economics, University of Dhaka handed over the certificates to the 13 essay writers including the winners.

"Third SANEM-World Bank North America Discussion Forum 2019" held at Washington D.C., USA



SANEM, in collaboration with the World Bank Group, organized the "Third North America Discussion Forum 2019" on July 12, 2019 at the World Bank headquarters in Washington D.C., USA. In the inaugural session, the welcome speeches were delivered by Dr. Selim Raihan, Executive Director, SANEM and Professor of Economics, University of Dhaka and Dr. Robert Carl Michael Beyer, Economist, the World Bank. The keynote presentation titled "Unleashing the Informal Sector in South Asia" was given by Dr. Hans Timmer, Chief Economist for the South Asia region, the World Bank. The forum comprised of five sessions titled Global Trade Scenarios, Trade and Investment, Labour Market, Social Capital, Institutions, and Challenges of Social Sector. During these five sessions, sixteen papers were presented.

Dr. Sayema Haque Bidisha was a panelist in the World Bank Econthon



Dr. Sayema Haque Bidisha, Research Director, SANEM and Professor of Economics, University of Dhaka spoke as a panelist in the session "Focus on South Asia" during the 24-hour Econthon organized by the World Bank on July 25, 2019.

SANEM-FAO Sub-national workshop held in Rangamati



SANEM, in association with Food and Agriculture Organization of the United Nations (FAO), organized a Sub-national workshop in Rangamati on "Mobilizing Involvement and Investment of the Private Sector in Implementing SDGs in Food and Agriculture in Bangladesh" on July 27, 2019. The workshop was attended by important stakeholders from Chattogram Hill Tracts.

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