

**Editor's Desk**

The September 2019 issue of *Thinking Aloud* focuses on "Social Protection in Bangladesh". The first page article titled "The Economics of Social Protection" stresses that while most of the developed economies spend a quite high proportion of their GDPs on social protection (15-30%), a large number of developing countries spend very low on social protection. Bangladesh is placed at the bottom list of the countries with a share of as low as only 1.6%. It is important to mention here that with very low spending on social protection, many of the SDGs are highly likely to be unrealised. The second and third pages of this issue present three articles. The article on "Effects of Changing Demographics on Social Protection in Bangladesh" emphasizes that the recent trends in the expansion of the schemes under the social protection budget must be arrested and schemes should be consolidated into the recommended six core clusters based on the life cycle approach or age-specific schemes. The article on "Cost-Benefit Ratio Study on Effects of Social Protection Cash Transfer" highlights that coverage expansion and increased transfer amounts produced large poverty impact compared to current situation only with the assumption of 'perfect targeting'. If this assumption were excluded the coverage expansion and increased transfer amount did not yield large gains in terms of poverty reduction. The article on "Long-Term Effect of Livelihood Promotion Types of Social Security Programmes" stresses that graduation programmes perform better when compared to cash transfer programmes especially when considering the indicators which focus on sustainability (i.e. income and expenditure, gross remuneration, engagement in productive activities, level of literacy and use of loans). Therefore, to maintain the extent of long-term impact, more needs to be done beyond social safety nets. The fourth page covers the events that took place in the month of August.

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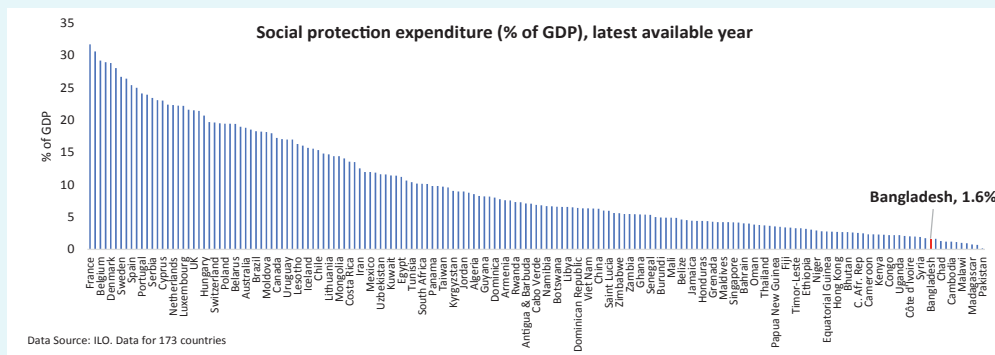
**The economics of social protection**

**Selim Raihan**

One major challenge, faced by the policymakers in most of the developing countries, is that though conventional measurements of poverty are useful in identifying the poor people in general, these measurements fail to capture the critical sections of the population who are vulnerable and extreme poor but left-out for various reasons including gender, age, geographical location, disability and many other social factors. While the reduction in poverty is an important policy agenda, many poor people and the aforementioned extreme poor and vulnerable population can be left-out through the conventional scanners of different poverty reduction programmes. Therefore, social protection is primarily intended to complement the poverty reduction programmes through which these left-out population can be brought under the coverage. It is imperative that an effective designing of social protection system takes into account a comprehensive understanding of the poverty and vulnerability situation of a country, while at the same time it should be dynamic and forward-looking. Though country experiences vary, social protection in general, covers policies and programmes designed to reduce poverty and vulnerability through labour market interventions for the efficient functioning of labour markets, interventions related to social insurance to reduce people's exposure to risks, and social assistance

On the second aspect, there are debates concerning the approaches of social protection, whether social protection should be universal or targeted. While universal approach argues for social protection for each person, critics claim that universalism is not cost-effective and unfairly distorts individual efforts, and, therefore, targeting should be a better solution. Also, there are debates on whether net income should be considered while determining a needy population, or the capabilities approach should be undertaken as income is misrepresented and, in many occasions, fails to unearth the root causes of poverty. Furthermore, there are debates over the means of social protection whether cash transfer is better than programmes based on transfers in kind. Finally, a major aspect related to the approaches of social protection is the growing acceptance of undertaking a lifecycle perspective, that helps to understand the impacts of demographic change on countries. With the change in the structure of the population over time, the policy attention and allocation of public resources to address lifecycle risks and challenges should also change.

The third aspect is related to financing social protection. Many developing countries face a critical challenge in mobilising resources for social protection programmes. The tax-GDP ratio is very low in many developing countries. For example, Bangladesh has a



interventions to enhance people's capacity to manage economic and social vulnerabilities, such as unemployment, exclusion, sickness, disability and old age. Also, strengthening of the social protection systems is aimed to promote women's empowerment and gender equality. The 2030 Agenda for Sustainable Development sets a clear vision for action to expand coverage of social protection systems and measures for all, with a view to eradicating poverty and reducing inequality, including gender inequality. What is the economics of social protection? In my view, the economics of social protection involves three major aspects: (i) what proportion of the Gross Domestic Product (GDP) the government is spending on social protection; (ii) the approaches of social protection; and (iii) financing social protection.

On the first aspect, the graph presents data on public social protection expenditure as a share of GDP (for the latest available years) for 173 countries. While most of the developed economies spend a quite high proportion of their GDPs on social protection (15-30%), a large number of developing countries spend very low on social protection. Bangladesh is placed at the bottom list of the countries with a share of as low as only 1.6%. It is important to mention here that with very low spending on social protection, many of the SDGs are highly likely to be unrealised.

tax-GDP ratio of less than 10%. With a very low tax-GDP ratio, governments in many developing countries face fiscal constraints in expanding social protection programs. Concerning raising tax revenue, governments also face the challenge of expanding the tax base and taxing those who have the capacities in paying taxes but evade. As countries develop, ideally, for generating government's revenue, the reliance on indirect taxes should decline while that on direct taxes should increase. It is a common feature in many developing countries that a large number of potential taxpayers, which include many ultra-rich people, remain outside of the tax-net or pay a negligible amount of taxes. Also, many economic sectors, capable of paying taxes, are either fully exempted from paying taxes or enjoy the privileges of paying a substantially reduced amount of taxes. It should also be highlighted that governments in many developing countries suffer from the usual problem of not getting their priorities right. Therefore, while governments allocate resources for many 'low-priority' activities (from the view-point of development perspective), for example, spending high on the military, the resources left for social protection remains very inadequate.

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## Effects of changing demographics on social protection in Bangladesh

The demographic dynamic suggests that the older population (those aged 60 and over) may outnumber children (0-5) in less than a decade which indicate the need for social protection systems that adapt to demographic changes. This study attempts to explore the implications of changing demographic dynamics and effects on social protection in Bangladesh. Following five age-specific groups – children (age 0-4); school age (age 5-14); youth (age 15-29); working age (age 30-59); and old age (age 60 and above) have been considered in this study.

Demand and supply side assessment for 2010 and 2016 revealed a large coverage gap. Estimated coverage gap in 2010 as percent of estimated total beneficiaries (i.e. 45.4 million) from demand side is 75 percent. The estimated beneficiary coverage gap has fallen significantly in 2016 to 19.2 million. Total resource gap in 2010 is 272,605 million BDT suggesting that resource gap in 2010 as percent of estimated total resource requirements (i.e. 380,395 million BDT) from demand side is about 72 percent. Significant improvement in resource gap situation has been noted for 2016 as it dropped to 29 percent. When the key patterns and trends of the analytical framework are assessed against the 'elements of good social protection system' it appears that the current social protection system is inadequate due to low coverage and transfer amounts.

A long-term costing module for Bangladesh covering period from 2016 to 2051 has been developed to project or simulate costs of the above mentioned five age-based schemes for each year under various combination of coverage and transfer amounts. The module is flexible to project and simulate costs by varying different combination of coverage and transfer amount. The range of age cohort is from 0 (zero) to 80 and coverage of the projections ranged from 2011 to 2061. The relevant years for cost estimation are 2017 to 2051. Two social protection packages have been considered.

Package one composed of universal coverage for two age-based schemes – children and old age. The coverage for the school age and youth has been set at 35 percent of their population sizes. Only 15 percent coverage has been set for the working age population since a significant portion of them would be covered by their employers and through the employment insurance scheme. Total numbers of beneficiaries which have been estimated at 65.5 million persons in year 2020 increase to 92.5 million persons by 2050. The beneficiary coverage as percent total population will increase from 38.7 percent in 2020 to 42.9 percent in 2050. In package one, monthly transfer amount has been set only at 0.07 percent of the annual per capita income. A uniform transfer amount has also been assumed for all 5 types of age-based schemes. Total cost may vary from 3.3 percent of GDP in 2020 to 3.6 percent of GDP in 2050. Total costs thus suggest a stable pattern over the 30 years' period. Two contrasting trends have been found – (i) rising trends for the schemes supporting the old age and working age population; and (ii) falling trends for the other three schemes – children, school age and youth.

Package two consists of targeted coverage for all schemes. The coverage for children and old age has

been set at 35 percent of their population sizes. The coverage is 25 percent for school age and youth. A smaller coverage of 20 percent has been set for the working age population. Total numbers of beneficiaries which have been estimated at 41.6 million persons in year 2020 increase to 54.7 million persons by 2050. The beneficiary coverage as percent of total population may range between 24.6 percent in 2020 to 25.4 percent in 2050. A slightly higher monthly transfer amount of 1 percent of per capita income has been set in package two. Again, a uniform transfer amount has also been assumed for all 5 types of age-based schemes. Under this package, total cost may vary from 2.995 percent of GDP in 2020 to 3.048 percent of GDP in 2050. Three contrasting trends have been found – (i) rising trends for the schemes supporting the old age; (ii) rising (till 2035) and stable trends (for the rest 15 years) have been found for the working age scheme; and (iii) falling trends for children, school age and youth.

A fiscal framework has been developed to assess the fiscal space for financing of the resource needed for package 1 and package 2. *Ceteris paribus*, fiscal space for social protection has been projected to expend from 2.1 percent of GDP in 2020 to 7.8 percent of GDP in 2030. The projected fiscal space for social protection system has been contrasted against the two packages – package 1 and package 2 in a single framework to assess their fiscal feasibility and sustainability. It also includes 0.36 percent cost associated with universal disability scheme. Bangladesh will find it extremely difficult to finance two packages in the early years of the projected period. Package 2 will only be feasible and sustainable onward 2030. The estimated resource gaps between fiscal space and package 1 costs are 1.24 percentage points in 2020 and 0.56 percentage points in 2025. The options for Bangladesh are either to cut cost even further under package 2 through lower coverage; or benefit; or combination of both in line with fiscal space or resort to higher deficit financing (i.e. over the 5 % level used in the fiscal framework) for initial years with the understanding that the gains in fiscal space in the later years would be used to pay interest payment and debt amortization. Bangladesh may restrict the social protection budget to fiscal space in the early years but gradually expand it with higher coverage and transfer amounts.

Bangladesh must start consolidating the social protection schemes into six core clusters. The recent trends in the expansion of the schemes under the social protection budget must be arrested and schemes should be consolidated into the recommended six core clusters based on the life cycle approach or age-specific schemes. Periodic in-depth review of the system is also needed to raise enhance effectiveness of the system and the value for money.

## Cost-benefit ratio study on effects of social protection cash transfer

Cost-effectiveness of few selected cash and food assisted programmes have been analysed in this study. Various types of methods utilizing diverse data sets have been used in this study. For 16 cash and near cash schemes, the average administrative cost has been 8.2 percent. Average cost for CCT schemes is

also same at 8.2 percent. The administrative cost has been found highest for the food schemes. Average cost for food schemes is around 25.2 percent – almost three times of the administrative cost reported for cash and near cash schemes. The higher administrative costs for the food-assisted schemes compared to the cash schemes are mainly due to the logistical costs of transportation, storage, preparation, and related losses during these phases of such schemes. On the basis of these global findings, it has been suggested that desirable administrative cost for cash schemes may range from 8 percent to 15 percent. While on the same logic, for food schemes it may vary between 25 percent and 35 percent.

Administrative costs by social protection schemes are not well documented in Bangladesh and hence it is a challenge to estimate (or calculate) the administrative costs. Available data suggests that administrative cost of cash and CCT is around 4 percent. While administrative cost of food schemes has been found at around 10 percent. Low or inadequate allocation of resource for administrative costs are associated with high exclusion and inclusion errors and leakages of resource (in the case of stipend programmes, the leakage has been estimated at 20-40 percent).

An analytical framework has been adopted to calculate the benefit-cost ratio (BCR) of selected cash and food schemes include two components – assessing the total costs of these schemes (i.e. transfer costs plus administrative costs) and estimating benefits of these interventions. Data for two years – 2016 and 2018 – have been collected for BCR estimation. Year 2016 has been selected since poverty estimates are available for that year through the use of HIES 2016. On the other hand, choice of year 2018 has been suggested as being the most recent year for which data are available.

Seven schemes have been selected for the BCR assessment. They are: Pure Cash Transfer Schemes: Old Age Allowances (OAA); and Allowances of Widow, destitute and deserted women (AWDDW). Condition Cash Transfer (CCT) Schemes: Primary Education Stipend Programmes (PES); and Secondary Education Stipend Programmes (SES). Food Transfer Schemes: Vulnerable Group Development Programmes (VGD); Vulnerable Group Feeding Programmes (VGF); and Food for Work Programmes (FFW).

Total costs composed of programmes costs and administrative costs. Two approaches have been adopted to assess benefits. In the first approach poverty impacts of these schemes (with and without the schemes) have been determined using the unit record data of HIES 2016. In the second approach, the Social Accounting Matrix (SAM) of Bangladesh for 2012 has been used to derive the economy wide impacts (i.e. GDP gains) of these transfers.

Higher BCR values have been found for the two cash transfer programmes – OAA and AWDDW. The key drivers for higher BCRs values have larger impact on poverty. Relatively lower poverty impacts of VGD compared to OAA and AWDDW led to lower BCRs for these food schemes. On the other hand, lowest BCR value has been found for Stipend programme since poverty reduction is not the main goal of this scheme. Thus, assessing the impact of stipend programmes through the poverty lens may not be the appropriate method. In the case of SAM model approach, highest BCR has been found for stipend mainly due to the inclusion of an added multiplier factor (5%) for human resource development. However, even in the SAM

model approach, BCRs of cash schemes have been found higher than BCRs of food schemes.

Social protection system is an important instrument to fight against poverty. There are various conduits through which social protection system can be used to exert impact on poverty situation. Poverty situation may either be impacted through expanding coverage – including additional beneficiaries; enhancing the transfer amounts – higher transfers paid to the existing beneficiaries; improving implementation efficient – better selection of deserving beneficiaries. To assess the effectiveness of these three modalities (i.e. coverage expansion; increased transfers; and improved selection) a micro-simulation model (MSM) based on the HIES 2016 has been used. We also consider three cash schemes (i.e. OAA; AWDDW and Stipend) for the micro-simulation exercise.

Coverage expansion and increased transfer amounts produced large poverty impact compared to current situation only with the assumption of ‘perfect targeting’. If this assumption were excluded the coverage expansion and increased transfer amount did not yield large gains in terms of poverty reduction. It thus envisaged that coverage expansion and increased transfer amount must be pursued along with fixing the system.

International and national evidences clearly envisaged that allocating adequate resources for administrative costs are important for programme success. Contrary to this understanding, our analysis suggests poor provision of resources for administrative cost in Bangladesh. Designing an adequate administrative cost structure in Bangladesh may not be feasible without large scale consolidation of schemes. Thus, in line with the recommendations of the NSSS (2015), Bangladesh must start consolidating the social protection schemes into six core clusters based on the life cycle approach or age-specific schemes. This step would allow the authorities to design and determine an adequate administrative cost system for the social protection schemes in Bangladesh.

Key agencies involved in policy formulation, resource allocation and implementation may need to be exposed to a systematic acquaintance to the formulation of an adequate administrative cost through tailored trainings; exchange programmes and further in-depth studies. Bangladesh must also determine an adequate administrative cost structures for Bangladesh social protection schemes (i.e. cash; CCT; food and livelihood) with clear provision for cost to cover set-up (i.e. office, equipment and MIS system etc.), beneficiary selection; and monitoring and evaluation.

### Long-term effect of livelihood promotion types of social security programmes

Bangladesh is in the pathway of attaining Sustainable Development Goals (SDGs). In order to achieve the goals, it is imperative to ensure inclusive development and end poverty and therefore, a concrete livelihood programme or public works model is essential. This study attempts to identify how the Government of Bangladesh’s livelihood social security programmes are affecting the long-term welfare of the citizenry, and whether they provide a better value for money over direct cash transfers or not. Moreover, this study particularly aims at finding out whether livelihood graduation programmes have any long-term impact on beneficiaries or not. In doing so, the

study predominantly – (i) deploys a survey technique on SWAPNO beneficiaries to compare it with baseline and end-line, and (ii) compares between cash transfer and graduation programme using HIES 2016 data.

This study particularly emphasizes on SWAPNO programme that typically attempts to achieve dual objectives since inception i) maintenance of public works and ii) boosting of women self-confidence and self-esteem. SWAPNO analysis finds a substantial increase in income and asset of the beneficiaries. The increase in yearly income of beneficiaries has been calculated to be approximately BDT 14,797 compared to their control counterpart due to SWAPNO intervention. This, as a consequence, reduces both moderate and extreme poverty. Beneficiaries are now food secured and their increase in income resulted in an increase in food and non-food expenditures, particularly education and health expenditures. Beneficiaries reported that they have other sources of income including livestock, personal grant, income from TR, VGD and VGF, handicraft, small business, selling fruits, government grants etc. They have utilized their graduation bonus in purchasing homestead and cultivable land along with starting different small businesses. Moreover, their occupational transition from wage labour to a mix of farmers has enhanced their self-esteem and self-confidence. Comparing the value of BMI, beneficiaries are perceived to have good health than before. A large share of beneficiaries now maintains good food habits which has resulted in improved nutritional status. Moreover, SWAPNO training programme has been successful in creating awareness among the participants about maintaining good health and sanitation status along with coping strategies even during shocks. The programme has also helped them to learn about their inheritance and fundamental rights. As reported, beneficiary women have now better participation in decision-making. With the growing self-confidence, their mobility in the locality has increased.

This study tries to investigate the relative efficacy of the cash transfer and graduation programme. In doing so, HIES 2016 dataset has been used to extract two particular programmes under graduation (VGD) and cash transfer (widow allowance). HIES analysis finds some unidirectional pathways while comparing cash transfer and graduation programme. However, considering the livelihood criteria such as income and expenditure pattern, gross remuneration, level of literacy, involvement in productive activities, and use of loan; graduation programme outweighs cash transfer programme. Though graduation programmes are found to be effective in the post intervention period, there should be more focus on generating better evidence on cash transfer programme as an alternative approach.

PSM analysis allowed us to evaluate the impact of long-term benefit of any programme intervention. It has been observed that the comparison between the households who received benefits from Social Safety Net Programmes (SSNP) with the ones who did not, is confounded. Overall, the results portray that there is positive impact of SSNP programme in Bangladesh. More specifically, the treatment group receiving the benefits under SSNP have more income and consumption than the untreated/control group.

From FGDs, the understanding is that, SWAPNO programme has successfully helped to uplift the condition of poor people to graduate from poverty. More specifically, beneficiaries from SWAPNO project can now afford enough food, clothes, and their daily necessities. KII findings put particular emphasis on the shortcomings in designing effective social security programmes in the sense that there remain weaknesses in selection of beneficiaries,

programme design, quality of programme delivery including the capacity of field staff, amount of transfer, the existence of value-added services, level of transparency and efficiency in the administration and types of support the beneficiaries are getting.

Considering the sustainability criteria and achieving long term objective of reducing poverty aligned with SDGs, the following issues should be emphasized carefully – stretching the project period for 24 months similar to the REOPA project, regular monitoring of assets, revisiting the business model regarding bonus payment, arranging different livelihood programmes for the union worker and their role should be revitalized, and project monitoring should take place through community oversight. It is taken for granted that, without government intervention, no development efforts can be implemented successfully especially in developing countries like Bangladesh. Therefore, setting up appropriate monitoring mechanism is the key to success of any public works programme. However, this paper highly argues that if the main aim is to graduate people out of extreme and moderate poverty, a comprehensive social security system should be developed with the adequate engagement of government bodies.

The success of the project does not solely depend on how effectively public work programmes have been implemented rather considering the well-being of the people the dual objective of the programme must be met – public works and poverty alleviation. Since this study has been conducted two years after the completion of the programme, therefore, the long-run impact of the programme can be better apprehended from this study. Currently the beneficiaries are engaged in different IGA and have invested their savings in more productive investment. Secondly, they had the opportunity to improve their standard of living and household status. Thirdly, this programme has boosted up their self-confidence and made them aware about different laws along with basic rights. However, significant loopholes are also witnessed in terms of engaging new income earning activities which in turn create unemployment and thereby reduce income and expenditure as compared with the control counterpart. Therefore, while considering the sustainability perspective, regular monitoring and time to time training session will help beneficiaries to graduate out of poverty. Moreover, the findings from HIES reveal that, graduation programmes perform better when compared to cash transfer programmes especially when considering the indicators which focus on sustainability (i.e. income and expenditure, gross remuneration, engagement in productive activities, level of literacy and use of loans). Therefore, to maintain the extent of longer-term impact, more needs to be done beyond social safety nets i.e. fiscal issues, monetary policies, job creation, wage rates, pricing and in many cases, there is a pressing need for redesigning SP programmes.

These three research works were carried out as outcomes of the projects with UNDP Bangladesh.

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### “SANEM International Trade Centre Workshop Series – 1” held at SANEM office



SANEM International Trade Centre organised its first workshop on August 03, 2019. The title of the workshop was “Emerging Trade Scenarios: Implications for Bangladesh”. The objectives of the programme were to discuss the emerging trade scenarios and shed light on their implications for Bangladesh. The workshop started with the welcome speech by Dr. Selim Raihan, Executive Director of SANEM and Professor of Economics, University of Dhaka. The whole workshop was divided into three sessions - “Emerging Global Trade Scenarios: Challenges for Bangladesh”, “Trade Policies of Bangladesh”, and “LDC Graduation and Challenges for Bangladesh”. The lectures were delivered by Dr. Selim Raihan, Executive Director, SANEM; Dr. Zaidi Sattar, Chairman, Policy Research Institute; and Mr. Md. Munir Chowdhury, Former Director General, WTO Cell, Ministry of Commerce respectively. The workshop was attended by researchers, academicians, practitioners, and students. The participants were awarded with certificates at the end of the workshop. It was the first workshop organised by SANEM International Trade Centre. In future, the centre will continue to organise such workshops.

### The first consultation meeting on technical framework of 8th FYP held at Planning Commission premises



Dr. Bazlu Haque Khondker, Chairman, SANEM and Dr. Selim Raihan, Executive Director, SANEM gave a presentation titled “Constructing the Technical Framework of the 8th Five Year Plan (FY21-FY25) of Bangladesh” on August 5, 2019. The methodologies and key results of IOT, SAM, CGE, poverty module, and employment module were presented at the meeting. The consultation meeting was held at NEC 1, Bangladesh Planning Commission and attended by renowned economists, researchers, and senior government officials.

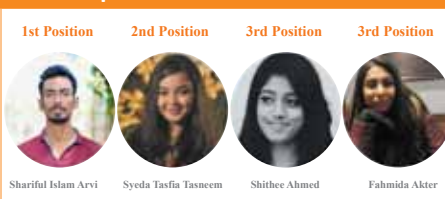
### 12th South Asian Training Programme on CGE Modeling held at Cox’s Bazar



South Asian Network on Economic Modeling (SANEM) in association with the Centre for WTO Studies (CWS), New Delhi and South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu organised the 12th South Asian Training Programme on CGE Modeling during August 19-23,

2019 at Cox’s Bazar, Bangladesh. Dr. Selim Raihan, Executive Director of SANEM was the instructor of the training. Thirty participants from Afghanistan, Bangladesh, India, Nepal, and Sri Lanka attended the training programme. The participants were awarded with certificates at the end of the training.

### Top essay writers of “Youthonomics - Episode 5” were awarded



The monthly essay writing competition of SANEM was held for the month of August 2019 titled “Youthonomics – Episode 5”. The topic of the competition for this month was “Female Participation in the Labour Force: Obstacles and Solutions”. Around 50 essays were submitted by the students of different universities. From the submission, four winners were declared. The winners are Shariful Islam Arvi, National Institute of Textile Engineering and Research; Syeda Tasfia Tasneem, BRAC University; Fahmida Akter, University of Dhaka; and Shithee Ahmed, Bangladesh University of Professionals. Six other participants were recognised with Distinguished Writing Awards. They are – Nishat Tasneem, Khulna University; Sakib Imran Ali, Independent University; Jinat Jahan Khan, University of Dhaka; Md. Rakibul Islam, Bangabandhu Sheikh Mujibur Rahman Agricultural University; Md. Imran, University of Dhaka; and Md. Ismail, Dhaka College. The winners will be awarded with a token money and certificate.

e-version: <http://sanemnet.org/thinking-aloud/>

### “SANEM Political Economy Centre Workshop Series – 1” held at SANEM office



SANEM Political Economy Centre organised its first workshop on August 31, 2019. The title of the workshop was “Political Economy of Development”. The aim of the programme was to discuss how institutions matter for growth and development. The workshop started with the welcome speech by Dr. Selim Raihan, Executive Director of SANEM and Professor of Economics, University of Dhaka. The whole workshop was divided into two sessions. The first session titled “Yes, Institution Does Matter for Development!” was conducted by Dr. Selim Raihan. The second and final session on the “The Politics of Growth in Bangladesh in Light of Deals Space and Limited Access Order” was conducted by Dr. Mirza M. Hassan, Senior Research Fellow and Head, Governance and Politics Cluster, BIGD, BRAC University. The workshop was attended by researchers, academicians, practitioners, and students. The participants were awarded with certificates at the end of the workshop. It was the first workshop organised by SANEM Political Economy Centre. In future, the centre will continue to organise such workshops.