

SOCIAL INSURANCE, THE GARMENT INDUSTRY AND GENDER IN BANGLADESH: A COMPARATIVE POLITICAL ECONOMY PERSPECTIVE WITH NEPAL AND CAMBODIA



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Social Insurance, the Garment Industry and Gender in Bangladesh: A Comparative Political Economy Perspective with Nepal and Cambodia

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Executive Summary

The Ready-Made Garment (RMG) industry is the pillar of Bangladesh and plays an important role in exports and employment. Nevertheless, the industry does not have strong social protection mechanisms established despite its significance, hence exposing millions of workers to economic and social problems. To solve this issue, the government has moved forward to introduce a social insurance scheme under the National Social Security Strategy (NSSS) that was published in 2015. The pilot Employment Injury Scheme (EIS) scheme was one of the major projects under this campaign that began in June 2022. The scheme will provide financial support in the form of monthly pension to physically disabled workers or to the family members of deceased workers who have lost their lives due to accidents occurred during work. Although this is a commendable step towards strengthening the social security system, the future of the program is uncertain because it presently relies on voluntary contribution by multinational companies as opposed to an obligatory employer-contributory approach.

The research points out major challenges that hinder the development of social insurance in Bangladesh. Powersome business clusters such as the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) have structured an industrial policy environment favorable to industrial development at the cost of workers' welfare. Additionally, poor institutional capacity and poor regulation enforcement have created poor compliance on the part of employers, while the historically low rate of union membership has left workers voiceless in policy deliberation. These institutional limitations present challenges in implementing a transition from donor-funded, voluntary social insurance to an entrenched system.

In spite of these limitations, the report provides robust evidence of the economic and social return for extending social insurance in the RMG sector. Simulation findings based on a Computable General Equilibrium (CGE) model show that enhancing security for workers could enhance productivity, expand exports, and contribute positively to GDP growth on a net basis. Stronger social insurance regimes also happen to come with improved wages and industrial harmony, lowering the incidence of labor unrest and Bangladesh an attractive destination for foreign consumers. Aligning social protection policy with international labor standards is no less crucial, lest non-compliance would risk losing market access, particularly in Western markets worried about ethical sourcing.

The research also considers the gender aspects of social insurance among RMG workers. Women form a majority of workers but are disproportionately affected by unemployment insecurity, reduced earnings, and denial of access to precious social benefits like maternity leave and health insurance. These inequalities have to be removed through gender-sensitive policy reforms providing equal access to insurance schemes and protection against occupational risks.

Comparing Cambodia and Nepal, the report derives useful lessons in terms of policy for Bangladesh. Cambodia has managed to implement a national social security system, proof

that expansion of social insurance can be implemented even in the face of resistance from business groups. Nepal's more fundamental ideological commitment to workers' well-being has enabled more comprehensive protection of workers regardless of scarce financial resources. These encounters imply that Bangladesh has to become more forceful in promoting the balancing act between industry competitiveness and social protection. The report highlights the manner in which political settlement variations among Cambodia, Nepal, and Bangladesh influence the likelihood and direction of social insurance reforms in these countries.

Cambodia and Nepal possess inner political dynamics conducive to social insurance enlargement, but not Bangladesh. This is to highlight the necessity of external actors to become more actively involved and over the long term in advocacy for social insurance in Bangladesh, an institution that is well known to require persistent attention more than the usual short-term development project duration. The report implies some policy implications.

The legal framework needs to be strengthened, specifically in making employers' contributions to social insurance compulsory rather than voluntary. Regulatory bodies need to be granted greater autonomy and resources to guarantee enforcement, and informal sector workers, who are predominantly women, need to be brought into the social insurance system through creative channels like mobile-based contribution. Stakeholder engagement will be key to designing sustainable change through social dialogue among workers, employers, and the state. Besides, economic policies will have to be complemented with social insurance growth through foreign direct investment (FDI) and fiscal adjustment in order to fund worker protection without overly burdening enterprise. Finally, while Bangladesh has attempted to close the social insurance deficit in the RMG industry, considerable structural and political economy limitations still exist. Transition from pilot programmes to a nationwide institutionalized structure entails an intermeshed approach of regulatory reform, institution building, and wider stakeholder coordination.

Social insurance not only increases workers' welfare but also initiates economic resilience and long-term sustainable industrial growth. The report urges policy interventions to be introduced at an early date in order to overcome such challenges so that Bangladesh's industrial workers will get proper protection as per international labour standards.

1. Introduction

1.1. Background

Despite having made enormous economic growth and experienced a substantial increase in its industrial sector over the past two decades or more, to a great extent Bangladesh has failed to build strong social security schemes, e.g., pension schemes, for its workers in industries. That failure has made millions of workers economically as well as socially vulnerable, revealing the gaps in the country's quest for balanced growth. Addressing the pressing need for social protection, the government has recently come up with plans to implement a universal social insurance scheme under the 2015 National Social Security Strategy (NSSS). The visionary strategy is intended to prevent the frailties built into the system and provide the industrial workforce with welfare consistent with international standards.

In the NSSS system, the government has set up the National Social Insurance Scheme (NSIS) with five major components to establish a safety net for private-sector employees. These include unemployment insurance, employment injury insurance, maternity insurance, sickness insurance, and an old-age pension scheme. Significantly, while government officials are already covered by a pension scheme, the NSIS goal is to provide the same privilege to private-sector personnel who constitute the backbone of Bangladesh industry.

As the initial step toward making this integrated social insurance scheme a reality, the government introduced the Employment Injury Insurance (EIS) Pilot in June 2022, and that was directed to one of the most vibrant and economically important sectors of Bangladesh—the ready-made garment (RMG) sector of the export-based economy. The pilot is targeted at the around 4 million workers of the RMG sector, who are the pillars in maintaining the export-based economy of Bangladesh.

The EIS Pilot offers compensation to injured workers through work, cashing out permanently disabled workers and dependents of dead workers. As opposed to the conventional lump sum payment, the EIS Pilot also features monthly pension payments as additions to the lump sum money received by the national institution through the Central Fund. This structure enables the compensation to be in line with international standards, more particularly those under ILO Convention No. 121. Novel too is the financing arrangement of the scheme, which is currently financed by voluntary contributions from foreign firms importing goods into Bangladesh. The pension benefit is determined based on consideration of the age and the erstwhile earned wage of the concerned employee, and this is a good system of income replacement.

The pilot program will last for a maximum of five years. After which the government plans to make the EIS a permanent program sponsored wholly by compulsory contributions from RMG factories in Bangladesh and hence transfer the cost burden to employers to attain longer-term sustainability.

While the EIS Pilot was run successfully, no steps whatever have been taken towards establishing the other components of the NSIS. The one other action that has been achieved to date was a voluntary worker-funded pension scheme. This does not amount to a social insurance scheme, though, as it's voluntary and there are no employer contributions. This failure to make actual progress has cast serious suspicions on the state's commitment and capability to close the gap towards broader social insurance for factory workers.

Upon closer inspection, it is appreciated that the rollout is slow due to deeply rooted structural and political economy limitations. Some of the major issues are the bad regulatory capacity of the state and the tendency to incline towards factory masters at the cost of factory workers. This unevenness is most evident in the RMG industry, with factory managers wielding considerable economic and political power through strong collective foundations like the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA). Seizure of regulatory policy by such powerful actors has also weakened the state's power to implement worker-friendly policies, leaving the industrial workforce inadequately protected socially.

The Bangladesh political economy must be taken into account in trying to make sense of its difficulties in adopting extensive social insurance. Bangladesh boasts one of the lowest world trade union densities and has, historically, had a slanted state with employer bias. This reality has given rise to an institutional environment where workers' interests are bound to be secondary to industrial elites. Within the RMG industry, this imbalance of power is particularly acute, as the industry's quintessential position in the economy and its effective lobbying influence are capitalized on.

Addressing these problems demands a fine-grained comprehension of the political economy forces that drive the Bangladesh labor relations. Any desired policy action to enhance social protection for the RMG workers will need to consider these institutional limitations and try to reconcile the opposing interests of the workers, the factory managers, and the state.

This research discusses challenges and opportunities of building social insurance mechanisms in Bangladesh based on political economy factors influencing the design and implementation of policy. Through comparative empirical analysis, the research gains lessons from other developing Asian nations with comparable economic systems but more advanced social insurance systems. The study sheds a lot of light on how social insurance can be used to boost economic development and the welfare of industrial workers. Additionally, it offers evidence-based policy recommendations to policymakers to bridge the political and institutional challenges to the launch of total social insurance in Bangladesh.

1.2. Key Questions and Issues

Key questions/issues that the study addresses are the following:

- Through an extensive review of analytical literature, this study develops a robust conceptual framework that explains which political-economic conditions and state-society relations are more or less conducive to the adoption and institutionalization

of social insurance policies in the export-oriented industrial sector, particularly the RMG sector.

- How have the RMG factory owners in Bangladesh reacted to the policy and piloting of social insurance in the form of the EIS Pilot for workers?
- Does the deals space theory proposed by Pritchett et al. provide a superior analytical framework for explaining political economy (PE) constraints related to the implementation of social insurance policies in the RMG sector? Do other relevant theories offer greater analytical insight?
- Did the “close and ordered” deal space in the RMG sector incentivize firm owners to resist adopting and institutionalizing social insurance schemes in Bangladesh?
- Does the experience of comparator countries support the hypothesis that export diversification into higher value-added industries creates a more favourable environment for social insurance expansion compared to Bangladesh's development model, which relies solely on RMG as the export growth engine?
 - If so, what role (if any) does foreign direct investment (FDI) play in this dynamic?
- How does the prevailing political settlement between the state, business, and labour determine the incentives and disincentives for these actors concerning social insurance policies for workers? Does regime type matter in this regard? Do ideological commitments (such as human rights and welfare state ideologies) and the autonomy of political elites (*vis-à-vis* business elites) play a role?
- How should the gendered dimensions of social insurance policy be addressed?
- What are the potential macroeconomic and labour productivity effects of social insurance policies?

These issues are framed and addressed from a comparative perspective. Bangladesh's experiences are compared with those of countries that have relatively successfully adopted social insurance policies in similar sectors. These countries include Cambodia and Nepal.

1.3. Methodologies

The research predominantly depends on three forms of research instruments: Key Informant Interviews (KIIs), literature review, and document/statistical report analysis of primary data provided by the government administration and private research institutions. It also browses print media for corroborating informative and investigative reports. Online and offline KIIs are carried out for collecting detailed opinions of different stakeholders.

Literature review is a comprehensive analysis of policy and theory-informed scholarly research and includes a critique of earlier studies on social insurance policies, their application, and influence across different contexts. Such a review allows one to gain insight into the general theoretical hypotheses and practical issues relevant to social insurance in the RMG industry.

The research employs simulation exercises based on a Computable General Equilibrium (CGE) model of the Bangladeshi economy in order to provide the macroeconomic and labor productivity impacts of social insurance schemes in Bangladesh. The Bangladesh CGE model

is employed to project various scenarios contingent on the implementation of social insurance schemes. This calls for the examination of interdependences in the economy and the resultant effects from changes in one sector to another.

The database for the CGE model is the Social Accounting Matrix (SAM) of the Bangladesh economy in the most recent available year. It reflects economic relationships between sectors, households, and institutions and gives an overview of the economy. Under different scenarios, for example, introduction of social insurance schemes, the study can project the likely effect on GDP, sectoral production, and labour productivity.

The simulation results are expected to reveal how social insurance schemes can impact aggregate economic growth, productivity, and workers' well-being. For instance, the application of health insurance can lead to healthier workers, reduced absenteeism, and productivity increase. Pension plans, however, can ensure the lives of their members, resulting in savings and investment that can lead to economic growth.

In addition to the CGE model, the study explores the role of FDI in shaping the dynamic. FDI can also play an important role in diversifying the economy and creating a better scenario for the growth of social insurance. The cases of the comparator nations, Cambodia and Nepal, are explored with a view to learning lessons and best practices that are transferable to Bangladesh.

The analysis also takes into account the dominant political settlement among business, labour, and the state, and how this affects the incentives and disincentives for policy implementation of social insurance policies. The regime type, ideological tendencies, and political elites' autonomy are analyzed with regard to significance and effects on policy implementation.

Lastly, the research considers the gendered character of social insurance policy and that workers may face specific challenges and vulnerabilities. The macroeconomic and labour productivity impacts of social insurance policies are thoroughly discussed and highlight the need for inclusive and robust social protection systems to assure development sustenance and poverty and inequality reduction.

2. Review of Literature on Social Protection and Social Insurance

2.1. Conceptual Foundations of Social Protection and Social Insurance

Social protection and social insurance are essential in promoting socioeconomic security and protection of people from risks like poverty, disease, unemployment, and old age. Social protection, with a wide definition and scope, is a set of public and private arrangements designed to make income or consumption available to people, shield them against uncertainties, and include them socially. It is consistent with the social security right under the Universal Declaration of Human Rights as well as other human rights treaties, with both preventive and compensatory approaches highlighted in order to minimize social and economic dangers.

Social protection programs are typically categorized into three broad categories: social insurance, social assistance, and labour market programs. Social insurance plans such as pensions and medical insurance are typically funded by employers' and workers' contributions (ILO, 2018a). Social assistance plans are not contribution-based and are generally financed through general taxation. Social assistance plans are designed to benefit the poorest members of society such as the aged, the disabled, and the unemployed and provide them with a guaranteed level of living. Social welfare programs play a crucial role in social justice and poverty reduction, as indicated by the World Bank (2018). Active labour market programs try to improve the quality of employment opportunities and working conditions. Key programs include job training, employment subsidy, and public works programs designed to correct structurally unemployment and underemployment. Scientific studies have shown that active labour market programs can increase employment levels and economic productivity (OECD, 2018).

The operation of social protection systems relies on implementation and design. Good coverage, reasonable benefit levels, and effective administration are the most important determinants of whether these systems will be successful or not. In addition, formal coverage of informal sector workers in social protection programs is still a serious challenge, especially in the developing world where the dominant form of work is informal. Innovative strategies, like micro-insurance and mobile payment systems, are believed to extend these workers social protection coverage (ILO, 2018b; World Bank, 2018). The United Nations Committee on Economic, Social and Cultural Rights refers to the function of social security as a human right under Article 9 of the International Covenant on Economic, Social and Cultural Rights (ICESCR).

As per the UN, this type of right binds states to set and provide such systems that ensure extensive coverage, like access to health care, income support, and workplace protection. These systems are essential to secure citizens and families against poverty and social exclusion, so everyone has the means to live with dignity. The Committee emphasizes that social security should be provided to everyone without distinction, particularly to disadvantaged and vulnerable people (United Nations, 1976).

Other than that, the application of effective social protection systems has been attributed to wider social and economic advantages. According to ILO studies, it has been stated that nations that have developed social protection systems will tend to be more socially inclusive and economically secure. These systems not only serve as a cushion in times of crisis but also allow for sustainable development in that they allow the participation of people in economic activities. Governments can finance inclusive growth as well as inequality reduction by investing in social protection (ILO, 2017).

Theoretically, contributory social insurance schemes have been contrasted with non-contributory social assistance. Contributory schemes, for example, employment injury insurance and pension schemes, entail direct contribution by beneficiaries, normally employees and employers, but employment injury insurance tends to be financed largely through employer contributions. These programs are generally associated with risk pooling, solidarity, and actuarial reasoning (ILO, 2022). For example, insurance for workers' compensation in manufacturing plants, where workers are at risk of occupational injury, is a prime example of the contributory mechanism. Non-contributory social protection, however, is designed for the benefit of those who are not able to contribute, like marginalized groups or informal sector workers. Financed largely by the levying of taxes, such types of systems are an important safety net by means of the provision of a minimum income support to the most vulnerable groups in society (ILO, 2022).

Non-contributory systems have the potential to constitute the backbone of social protection nets to facilitate even the non-employed to have access to the basic necessities. They are essential for poverty and inequality reduction and hence social stability and cohesion. Studies by the International Labour Organization (ILO) have established that strong non-contributory social protection systems can result in socio-economic development and economic resilience (ILO, 2019). As much as they promote individual well-being, the same systems promote integral socio-economic development. There is need to invest in contributory and non-contributory social protection programs to build an inclusive and integral welfare state.

One of the critical challenges in implementing social protection systems is the prevalence of informal economies, particularly in low- and middle-income countries. Informal workers often lack access to formal social insurance schemes due to their irregular income patterns and non-standard employment relationships. This exclusion necessitates innovative mechanisms, such as targeted subsidies or simplified registration processes, to extend coverage to informal workers (ILO). (2022). For example, countries like India have introduced schemes like the Pradhan Mantri Shram Yogi Maandhan (PM-SYM), which provides pension coverage for unorganized workers.³ Similarly, Brazil's Bolsa Família

³ PM-SYM: It is a voluntary and contributory pension scheme, under which the subscriber would receive the following benefits : (i) Minimum Assured Pension: Each subscriber under the PM-SYM, shall receive minimum assured pension of Rs 3000/- per month after attaining the age of 60 years. (ii) Family Pension: During the receipt of pension, if the subscriber dies, the spouse of the beneficiary shall be entitled to receive 50% of the pension received by the beneficiary as family pension. Family pension is applicable only to spouse. (iii) If a beneficiary has given regular contribution and died due to any cause (before age of 60 years), his/her spouse will be entitled to join and continue the scheme subsequently by

programme offers conditional cash transfers to low-income families, helping to bridge the gap for those in the informal sector.⁴

Moreover, the implementation of non-contributory social protection schemes is needed in redressing the weaknesses of the informal workers. The schemes, which are primarily financed by taxes, serve to play an important role in ensuring that the persons not involved in stable jobs are provided with basic necessities. ILO studies show that strong non-contributory social protection schemes can result in inclusive growth and economic resilience (ILO, 2017). By focusing on the empowerment of the poor and vulnerable, such programs not only enhance individual well-being but also facilitate broader socio-economic growth. There is a need to invest in contributory and non-contributory social protection programs to build a complete and cohesive welfare state (ESCAP, 2018).

ILO emphasized linking social protection systems with universal social protection (USP) goals. USP seeks to ensure that everyone, both in and out of work, has access to basic health care and basic income security throughout all stages of life. The Social Protection Floors Recommendation, 2012 (No. 202) of the ILO promotes a minimum floor of social assurances as the foundation for constructing inclusive systems for servicing heterogeneous groups of population and lifecycle risks.⁵

Moreover, USP framework implementation integrates contributory and non-contributory schemes to counter various dimensions of social vulnerabilities. Contributory schemes, which tend to accompany formal sector employment, offer protection to workers and their dependents, while non-contributory schemes make sure that those without formal sector employment, e.g., informal workers, are also given social protection. The dual strategy is central in ensuring economic resilience and inclusive growth, as has been shown through many case studies and policy reports (ILO, 2018b). Investing in strong social protection systems helps nations to alleviate poverty, build social solidarity, and strengthen overall economic resilience.

Recent policy and academic discourse has increased the emphasis on innovations in social protection system design. An example of such an innovation is using technology to enhance targeting and benefit delivery. For example, digital platforms and biometric identification can be used to increase the effectiveness and precision of social protection programs. Further, there has also been increased focus on making the social protection benefits more transferable across borders, especially in the countries with high labour mobility. This makes it possible for people to retain their social benefits no matter where they may relocate

payment of regular contribution or exit the scheme as per provisions of exit and withdrawal. See

<https://labour.gov.in/pm-sym>

⁴ The Programme Bolsa Família (PBF) is a government programme introduced in 2003 by the then-president, Lula da Silva. Under PBF low-income families receive cash transfers on the condition that they, for example, send their children to school and ensure they are properly vaccinated. The conditional cash transfer model successfully reduced levels of inequality and hunger – with significantly fewer people living below the poverty line – and closing the historical rural-urban gap. See [https://centreforpublicimpact.org/public-impact-fundamentals/bolsa-familia-in-brazil/#:~:text=The%20Programme%20Bolsa%20Fam%C3%ADlia%20\(PBF,ensure%20they%20are%20properly%20vaccinated.](https://centreforpublicimpact.org/public-impact-fundamentals/bolsa-familia-in-brazil/#:~:text=The%20Programme%20Bolsa%20Fam%C3%ADlia%20(PBF,ensure%20they%20are%20properly%20vaccinated.)

⁵ https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524

for work. Not only do these new technologies facilitate easier administration but also bring timely help to reach the most disadvantaged sections of society.⁶

There is also another great innovation, that of the use of lifecycle strategies in social protection planning. This strategy addresses social risks and vulnerabilities at all stages of life, from infancy to old age, with a view to ensuring comprehensive and unbroken care. Child benefits, including unemployment insurance, and pension benefits are combined in an integrated system offering support at critical points in life. Such a combined approach is crucial in developing resilience among communities and individuals, so that a person is not made poor by fluctuations in life or economic recession. In covering the whole lifecycle, social protection systems can also ensure long-term well-being and social stability (ILO, 2003).

Empirical evidence exists to show the contribution of social protection systems to inclusive economic development. By decreasing poverty and inequality, stabilizing incomes, and allowing human capital to be developed through health and education, these systems allow overall productivity and social cohesion. For example, it has been discovered that established social protection systems in countries have been less unequal and more shock-economically resilient (IMF, 2022). Overall social protection systems not only provide a cushion for the very poor but also promote economic activity through raising consumption expenditure and lower precautionary saving requirements (World Bank, 2018).

In addition, social protection systems promote efficiency in the labor market by providing protection to employees and motivating them to invest in risky, high-reward activity, raising aggregate economic dynamism. Through the extension of unemployment allowances, health insurance, and family support, these schemes bring social stability during times of economic transformation and crises. This is especially so today as the world is experiencing an era of globalization and technological innovation that has the tendency to produce shocks within labour markets. Therefore, an investment in quality social protection systems is a key approach to sustainable economic growth and shared prosperity (World Bank, 2022).

2.2. Evolution of Social Protection Systems

Evolution of social protection systems is a historical, economic, and social evolutionary process. Social insurance schemes developed from initial attempts to shield against industrialization risks. They widened coverage to include a broad spectrum of risks such as unemployment, illness, accidents at work, and age. The heritage of such schemes has been in employer liability and workers' compensation schemes, like those in England and Wales, the early precedents for models of risk sharing (Lewis, 2012). The development from primitive employer liability schemes to all-embracing social insurance schemes was a step towards collective responsibility. This transformation was necessitated by the need to insulate workers from economic shocks arising from on-the-job injury, illness, and ageing. Over time, these schemes have been incorporated into wider welfare state arrangements favoring universalism and equality (Esping-Andersen, 1990).

⁶ <https://gsdrc.org/topic-guides/social-protection/global-issues-and-debates-2/digital-social-protection/>

As the social protection systems matured, they started covering a broader spectrum of social risks and demographic changes. Their growth has been triggered by a range of factors, such as political will, economic good fortune, and social movements to promote the rights of workers. Furthermore, the welfare state in the 20th century carried with it an increasingly formalized institution of social protection, with governments playing increasingly prominent roles in provision and regulation of social insurance schemes. This innovation has led to the establishment of large social security systems that have come to serve as agents of effort to create a safety net for all citizens, whether they are working or not. Through the incorporation of social insurance with other social protection interventions, like public health care and social assistance, states have tried to attain a more universal and sustainable strategy towards social security (Pierson, 2001).

Employment injury insurance is one of the pillars of social insurance and provides workers with work-related injuries or diseases and work-related diseases or injuries with money and health care. Such programs play a critical role in alleviating and reducing the socioeconomic effects of industrial accidents, especially those of dangerous nature.

In Bangladesh, where millions work in the RMG industry, the launch of the Employment Injury Scheme is a historic move. Launched by the ILO with the support of German development organization GIZ, the scheme compensates workers for on-the-job injuries, easing fiscal burdens.⁷

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Likewise, in Tanzania, the coverage of the Workers' Compensation Fund has been broadened to cover more occupational hazards, in line with efforts to enhance social protection systems in developing settings. This adjustment is in recognition of the virtue of broad coverage, not just for those in the formal sector, but for those engaged in the informal economy as well, thus reducing a significant coverage gap.⁸

Globally, employment injury schemes are being seen more and more as integral to social protection floors. This is consistent with the ILO's universal social protection approach because it encourages establishing minimum guarantees as a way of guaranteeing all workers, including non-working workers, access to basic income security and health care.⁹

Advanced countries provide lessons about how social insurance systems can be constructed, providing models that strike a balance between inclusiveness and sustainability. The Swiss

⁷ <https://www.ilo.org/resource/news/pilot-employment-injury-scheme-launched-ministry-labour-and-ilo-provide>

⁸ <https://www.ilo.org/resource/news/strengthening-workers-compensation-fund-tanzania>

⁹ International Labour Organization, Social Protection Floors Recommendation, 2012 (No. 202). See: https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524

consumer-choice health system is one such example, forged by the interplay of federalism and direct democracy. It promotes individual choice and market competition subject to regulatory control to minimize cost and maximize equity (LSE Consulting, 2022).

In this model, individuals must buy health insurance from private providers. The government sets clear rules to regulate premiums and ensure everyone has access. It offers subsidies to low-income households to lower their out-of-pocket costs. This shows the system's focus on inclusivity. This approach illustrates how government and organization can shape the design and rollout of social insurance systems.

The Scandinavian countries offer strong examples of welfare models that combine social insurance with broader protection systems. These countries emphasize universal coverage, supported by solid public funding, to address social risks throughout life. Such models highlight how political commitment, and organization can help create fair and sustainable social safety nets.

The development of social protection systems is not fixed; it evolves with global trends like technological progress, demographic shifts, and economic globalization. For example, the use of digital technology has changed how social insurance programs are managed and delivered. This change has made it easier to target those in need and has lowered transaction costs. Mobile payment systems and digital records are increasingly used to offer social protection to informal and remote workers, especially in low-income countries (World Bank, 2023).

Another growing trend is the portability of benefits across borders, driven by more mobile labor. Regional efforts, such as the European Union's coordination of social security systems, create frameworks to ensure that migrant workers can keep access to social protection benefits no matter where they live or work (ILO, 2010).

2.3. Regional Perspectives on Social Protection

Social protection systems vary widely across regions due to differences in socioeconomic structures, governance capacity, and historical contexts. Each region reflects unique challenges and innovations in addressing risks such as poverty, unemployment, and workplace injuries.

Asia's economic heterogeneity profoundly influences the development of social protection systems. While high-income economies like Japan and South Korea have established comprehensive welfare systems, many developing countries face significant gaps in coverage and access. Informal employment, characterizing much of the labour market, presents a formidable challenge to implementing contributory social insurance systems. Bangladesh's RMG sector employs around four million workers, contributing significantly to the national economy. However, workplace safety issues and the absence of robust social insurance mechanisms have left many workers vulnerable to economic shocks. To address this, Bangladesh launched its first employment injury insurance (EII) scheme, called

Employment Injury Scheme (EIS) Pilot, in collaboration with the ILO and GIZ.¹⁰ This initiative provides compensation for workplace injuries, aligning with international labour standards. The EIS Scheme exemplifies how targeted programmes can bridge gaps in social protection for workers. Its design includes provisions for financial compensation, setting a precedent for extending social insurance to other sectors. Cambodia has made strides in extending social protection to its predominantly informal workforce. The National Social Security Fund (NSSF) was introduced to provide health insurance and employment injury benefits to workers. Despite challenges in implementation, the NSSF has become a crucial safety net, offering medical care and financial compensation for workplace injuries (ILO, 2024). Nepal faces the dual challenge of high poverty rates and a predominantly informal economy. The Social Security Fund (SSF), established in 2011, aims to provide universal social protection. It includes provisions for unemployment benefits, health insurance, and pensions. Innovative approaches, such as community-based health insurance schemes, have helped extend coverage to remote areas (ILO, 2023). India has experimented with digital innovations in social protection delivery to enhance efficiency and reduce leakages. The Aadhaar biometric identification system has streamlined access to benefits, ensuring that subsidies and financial aid reach the intended beneficiaries. Additionally, India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) provides a legal guarantee of 100 days of employment to rural households, contributing to poverty alleviation and financial inclusion (ILO, 2012). Indonesia's National Health Insurance System (JKN) is one of the largest single-payer health insurance programmes globally, covering over 220 million citizens. The JKN programme aims to provide universal health coverage by integrating various existing social health insurance schemes into a unified system. Government subsidies ensure that low-income individuals can access essential health services, highlighting a successful model of inclusivity and equity.¹¹

European countries have long been regarded as pioneers in social protection, with systems rooted in principles of universality and equality. These systems are characterized by comprehensive coverage, high public spending, and well-established governance structures. Germany's Bismarckian model of social insurance, built on employer-employee contributions, continues to influence systems worldwide. It provides comprehensive benefits, including health insurance, unemployment benefits, and pensions, all underpinned by strong governance frameworks.¹² Similarly, the Netherlands offers a hybrid model combining public financing and private delivery of services, emphasizing inclusivity and efficiency.¹³ Switzerland's health insurance system is a unique example of balancing market mechanisms with regulatory oversight. Federal laws mandate that every resident purchase health insurance, but the government provides subsidies for low-income individuals to ensure affordability. This model demonstrates how consumer choice can coexist with

¹⁰ The terms 'Employment Injury Insurance' (EII) and 'Employment Injury Scheme' (EIS) are used synonymously in this report.

¹¹ <https://www.who.int/about/accountability/results/who-results-report-2020-mtr/country-story/2023/indonesia-success-in-achieving-90-percent-coverage-and-minimizing-out-of-pocket-expenses-through-national-health-insurance-expansion>

¹² <https://www.ssa.gov/history/ottob.html>

¹³ <https://iris.who.int/bitstream/handle/10665/348071/9789289051828-eng.pdf?sequence=1>

universal access, provided there is robust state intervention.¹⁴ The European Union has developed mechanisms to ensure the portability of social protection benefits for migrant workers across member states. These frameworks prevent workers from losing access to entitlements when they move for employment, reinforcing the region's commitment to inclusivity.¹⁵

African countries face significant challenges in building sustainable social protection systems, including limited fiscal space, high informality, and rapid population growth. However, innovative approaches are emerging to address these barriers. Tanzania's Workers' Compensation Fund (WCF) is a notable example of progress in social insurance. The fund covers injuries, illnesses, and fatalities linked to occupational hazards. Recent reforms have expanded coverage to informal workers, reflecting a commitment to inclusivity despite resource constraints.¹⁶ In Sub-Saharan Africa, community-based health insurance schemes have gained prominence. These schemes pool resources at the community level, ensuring access to healthcare for populations that are excluded from formal insurance systems. Additionally, digital payment platforms, such as Kenya's M-Pesa, are being integrated into social protection programmes to improve efficiency and reach.¹⁷

2.4. Governance and Financing of Social Protection Systems

Governance and financing are foundational to the effective design, implementation, and sustainability of social protection systems. Governance ensures that social protection schemes are inclusive, transparent, and responsive to evolving societal needs, while sustainable financing secures the resources required to meet their objectives without compromising economic stability.

Governance frameworks in social protection systems must balance inclusivity, accountability, and adaptability. The ILO advocates for tripartite social dialogue—a participatory approach involving governments, employers, and workers in policy design and implementation. This collaborative model enhances stakeholder buy-in, promotes fairness, and fosters trust in the system.¹⁸ For instance, in the European Union, strong institutional frameworks ensure that social protection programmes are effectively governed. The European Social Model emphasizes stakeholder engagement and clear accountability mechanisms, setting global standards for governance.¹⁹ The ILO's guidelines on good governance in social security stress transparency and efficient administration as critical for ensuring equitable benefit distribution.²⁰ In developing regions, however, weak institutional

¹⁴ <https://www.internationalinsurance.com/health/systems/switzerland.php>

¹⁵ <https://www.europarl.europa.eu/factsheets/en/sheet/55/social-security-cover-in-other-eu-member-states>

¹⁶ <https://portal.wcf.go.tz/>

¹⁷ [https://centreforpublicimpact.org/public-impact-fundamentals/mobile-currency-in-kenya-the-m-pesa/#:~:text=half%20the%20population-.The%20initiative,US\\$5%20to%20US\\$30.](https://centreforpublicimpact.org/public-impact-fundamentals/mobile-currency-in-kenya-the-m-pesa/#:~:text=half%20the%20population-.The%20initiative,US$5%20to%20US$30.)

¹⁸ <https://www.ilo.org/socialdialogue>

¹⁹ https://commission.europa.eu/priorities-2024-2029/european-social-fairness_en#:~:text=Overview,ensure%20equal%20opportunities%20for%20all.

²⁰ <https://www.ilo.org/resource/ilo-social-security-minimum-standards-convention-1952-no-102#:~:text=102%20has%20been%20ratified%20by,102%20was%20Honduras%2C%20in%202012.>

capacity often undermines governance. In Sub-Saharan Africa, for example, fragmented social protection systems frequently lack coordination between local and national agencies, leading to inefficiencies and overlapping mandates.²¹

Sustainable financing is the cornerstone of resilient social protection systems. While high-income countries typically rely on a mix of payroll contributions, general taxation, and investment returns, developing nations face significant challenges due to limited fiscal space, high informality, and administrative inefficiencies.²² Payroll taxes remain the dominant source of funding for contributory social insurance schemes. For instance, Germany's Bismarckian model, where employers and employees share the cost of social insurance, has proven effective in sustaining comprehensive coverage. However, such models are less feasible in countries with large informal economies, where a substantial portion of the workforce operates outside formal payroll systems.²³

Non-contributory schemes, such as social assistance programmes, are primarily financed through general taxation. Scandinavian countries exemplify the successful integration of high public spending with universal social protection coverage. In contrast, many low-income countries struggle to allocate sufficient budgetary resources, often relying on donor assistance to fill funding gaps (ILO, 2024). Emerging financing mechanisms are increasingly being explored to address structural challenges:

- **Social Bonds:** Countries like Mexico²⁴ and South Africa²⁵ have experimented with social bonds to fund social protection initiatives, linking financial returns to measurable outcomes in poverty reduction and healthcare access.
- **Earmarked Taxes:** Specific taxes, such as levies on luxury goods or environmental penalties, have been used to create dedicated funds for social protection. For instance, Brazil's Bolsa Família programme is partly financed through earmarked revenues.²⁶
- **Digital Taxation:** In the digital era, levies on e-commerce and digital platforms are being proposed as innovative sources of revenue, particularly in developing economies where traditional tax bases are narrow.²⁷

One of the perennial challenges in financing social protection is balancing cost-efficiency with equity. Means-tested programmes, while cost-effective, may inadvertently exclude deserving beneficiaries due to errors in targeting or stigma associated with welfare

²¹ https://socialprotection.org/sites/default/files/publications_files/TRANSFORM%20Full%20Document%20-%20COO.pdf

²²

<https://www.imf.org/external/pubs/ft/issues/issues27/#:~:text=In%20developing%20countries%20where%20market%20not%20being%20enforced%20as%20designed.>

²³ <https://www.sciencedirect.com/topics/social-sciences/compulsory-social-insurance>

²⁴ <https://www.brookings.edu/wp-content/uploads/2017/08/impact-bonds-in-mexico-overview.pdf>

²⁵ <https://theconversation.com/social-impact-bonds-fund-welfare-projects-how-south-africas-first-two-have-done-160883>

²⁶ <https://centreforpublicimpact.org/public-impact-fundamentals/bolsa-familia-in-brazil/>

²⁷ <https://www.adb.org/sites/default/files/publication/902511/adbi-enhancing-tax-revenues-through-digital-transformation-developing-asia.pdf>

dependency.²⁸ Universal schemes, on the other hand, reduce exclusion errors but require substantial fiscal commitments.²⁹

In Bangladesh, for example, the EIS Pilot programme is financed through contributions by international brands, ensuring targeted benefits without imposing additional burdens on workers. However, scaling such programmes nationally will require innovative public-private partnerships and international collaboration.³⁰

International organizations, including the ILO and the World Bank, play a critical role in supporting low-income countries to develop and finance social protection systems. The ILO's Social Protection Floors Recommendation, 2012 (No. 202) encourages high-income countries to provide technical and financial assistance to low-income nations, fostering global solidarity in achieving universal social protection goals.³¹

2.5. Social Protection in Global Crises

Global crises, such as economic recessions, natural disasters, and pandemics, reveal the critical importance of robust social protection systems. These crises test the capacity of governments to protect vulnerable populations while maintaining economic stability. The COVID-19 pandemic, in particular, exposed systemic weaknesses in social protection frameworks worldwide, underscoring the need for adaptive, inclusive, and sustainable measures.

The COVID-19 pandemic created an unprecedented global health and economic crisis, pushing millions into poverty and unemployment. Social protection systems became the frontline defense, providing income support, access to healthcare, and unemployment benefits. However, pre-existing gaps in coverage, financing, and governance severely constrained the ability of many countries to respond effectively.

The ILO's World Social Protection Report 2020-22 emphasized that nearly 53% of the global population lacked any form of social protection at the onset of the pandemic. Low-income countries, where informality dominates labour markets, were particularly vulnerable due to limited fiscal capacity and inadequate coverage of social insurance schemes.³²

Governments around the world implemented a range of temporary social protection measures to cushion the economic impacts of the pandemic:

²⁸

<https://documents1.worldbank.org/curated/ru/747591468125685125/pdf/930590REVISED00SPL0Technical0Note06.pdf>

²⁹ <https://www.ilo.org/media/106451/download>

³⁰ <https://eis-pilot-bd.org/>

³¹ International Labour Organization, Social Protection Floors Recommendation, 2012 (No. 202). See: https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:3065524

³² <https://www.ilo.org/publications/flagship-reports/world-social-protection-report-2020-22-social-protection-crossroads-pursuit>

- Cash Transfers: Over 200 countries introduced or expanded cash transfer programmes, targeting low-income households and informal workers. For instance, Bangladesh launched cash support initiatives to provide immediate relief to vulnerable populations, including workers in the RMG sector.³³
- Unemployment Benefits: High-income countries with well-established social insurance systems, such as Germany and the United States, expanded unemployment benefits. Germany's Kurzarbeit programme subsidized wages to prevent layoffs, exemplifying how targeted interventions can stabilize labour markets during crises.³⁴
- Universal Healthcare Access: Many governments prioritized healthcare by increasing funding for public health systems and ensuring free COVID-19 testing and treatment. South Korea's universal healthcare system facilitated an effective pandemic response, minimizing disruptions in healthcare access.³⁵

These measures underscored the importance of flexibility in social protection systems. Countries with established frameworks were better positioned to adapt and scale up their programmes, while those with fragmented systems faced challenges in implementation and delivery.

The pandemic disproportionately affected informal workers, who constitute over 60% of the global workforce. These workers often lack access to contributory social insurance schemes, leaving them vulnerable to income shocks. The ILO noted that informal workers in developing countries experienced a 60% decline in income during the first month of the pandemic, highlighting the urgent need to extend social protection to this segment.³⁶ For example, in Sub-Saharan Africa, where informal employment is widespread, governments relied on digital payment platforms like Kenya's M-Pesa to deliver emergency cash transfers.³⁷ These innovations demonstrated the potential of technology to bridge gaps in social protection coverage.

The ILO emphasized the role of international labour standards in strengthening social protection systems during crises. Standards such as the Social Protection Floors Recommendation, 2012 (No. 202) provide a framework for ensuring minimum levels of protection, including access to essential healthcare and basic income security. Countries that had previously aligned their policies with these standards were better equipped to respond to the pandemic's challenges.

The COVID-19 pandemic has catalyzed a global reassessment of social protection priorities. Key lessons include:

³³ <https://www.adb.org/sites/default/files/linked-documents/54180-001-sd-04.pdf>

³⁴ <https://www.imf.org/en/News/Articles/2020/06/11/na061120-kurzarbeit-germanys-short-time-work-benefit>

³⁵ <https://blogs.worldbank.org/en/health/learning-south-korea-building-resilient-health-systems-pandemic-preparedness>

³⁶ <https://www.ilo.org/sites/default/files/2024-04/podcast-transcript-ep2-2020.pdf>

³⁷ <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/638851468048259219/Mobile-payments-go-viral-M-PESA-in-Kenya>

- **The Importance of Universality:** Expanding universal social protection is essential to ensuring no one is left behind during crises. The pandemic highlighted the inadequacy of targeted, means-tested programmes in reaching all vulnerable groups.
- **Building Fiscal Resilience:** Strengthening fiscal capacities through innovative financing mechanisms, such as social bonds and digital taxation, is crucial for sustaining social protection programmes during economic downturns.
- **Integrating Technology:** Leveraging digital platforms for registration, delivery, and monitoring can enhance the efficiency and reach of social protection systems.

Moving forward, integrating crisis preparedness into social protection frameworks will be critical. This includes establishing contingency funds, adopting scalable programme designs, and aligning national policies with international standards to enhance resilience.

3. Interplay of Power, Interests, and Institutions: A Review of Political Economy Theories and Analytical Frameworks

Political economy theories provide a framework for understanding the complex interactions between stakeholder power and interests, institutions, and policy outcomes. These theories examine how political and economic processes influence each other and shape the behaviour of different actors within society. For the RMG sector in Bangladesh, a political economy perspective is essential to examine the roles of key stakeholders, assess institutional arrangements, and explore how power asymmetries shape policy outcomes related to social insurance.

3.1. Theoretical and Analytical Perspectives

3.1.1. Classical Political Economy

Classical political economy, emerging in the late 18th and early 19th centuries, is primarily associated with the works of Adam Smith, David Ricardo, and Karl Marx. This school of thought explores the intricate relationship between economic structures and political power, highlighting how economic interests and power dynamics shape policy outcomes.

Often regarded as the father of modern economics, Adam Smith's seminal work, *The Wealth of Nations* (1776), lays the foundation for classical political economy. Smith emphasizes the importance of free markets and the division of labour as drivers of economic growth. He argues that individuals pursuing their self-interest, guided by the "invisible hand," can lead to socially beneficial outcomes. However, Smith also acknowledges the potential for power imbalances and the role of the state in regulating markets to prevent monopolies and protect public welfare (Smith, 1776). Building on Smith's ideas, David Ricardo introduces the theory of comparative advantage in his work *On the Principles of Political Economy and Taxation* (1817). Ricardo's theory suggests that nations should specialize in producing goods for which they have a relative efficiency advantage, thereby maximizing global production and trade benefits. Ricardo also explores the distribution of income between different classes, particularly landlords, workers, and capitalists. He posits that economic policies often favour the interests of the ruling class, reflecting their influence over political decisions (Ricardo, 1817).

Karl Marx's contributions to classical political economy are profound, particularly through his works *Das Kapital* (1867) and *The Communist Manifesto* (1848, co-authored with Friedrich Engels). Marx introduces the concept of class struggle, arguing that history is driven by conflicts between different economic classes. In a capitalist system, this struggle primarily occurs between the bourgeoisie (capitalist class) and the proletariat (working class). Marx contends that the ruling class shapes policy outcomes to maintain its economic dominance and exploit labour. He emphasizes the importance of understanding the material conditions and relations of production in analyzing political and economic power (Marx, 1867; Marx & Engels, 1848).

Classical political economy underscores the significance of class struggle and the distribution of wealth and resources. It posits that economic interests and power dynamics are central to understanding policy outcomes. Policies often reflect the interests of the ruling class, which seeks to maintain its privileged position within the economic hierarchy. This perspective is crucial for analyzing how economic and political power are intertwined and how they influence societal outcomes.

The insights from classical political economy continue to be relevant in contemporary discussions on economic policy and social justice. By examining the interactions between economic structures and political power, scholars and policymakers can better understand the underlying forces that shape policy decisions and their impacts on different social groups.

3.1.2. Marxist Political Economy

The Marxist political economy, grounded in the works of Karl Marx and Friedrich Engels, extends the principles of classical political economy by placing a significant emphasis on class conflict and the exploitation of labour. This school of thought critiques the capitalist system, arguing that it inherently produces unequal power relations and economic disparities.

At the core of the Marxist political economy is the concept of class struggle. Marx and Engels argue that history is fundamentally driven by conflicts between different social classes over control of the means of production. In a capitalist society, the primary classes in conflict are the bourgeoisie (capitalist class) and the proletariat (working class). The bourgeoisie owns the means of production, such as factories, land, and capital, while the proletariat sells its labour power in exchange for wages.

Marxist theory posits that the capitalist mode of production is characterized by the exploitation of labour. Capitalists extract surplus value from workers by paying them wages that are less than the value of the goods and services they produce. This surplus value is the source of profit for the capitalist class. The exploitation of labour is thus a fundamental aspect of capitalist economies, leading to persistent inequality and social stratification (Marx, 1867).

The Marxist political economy argues that the capitalist system perpetuates unequal power relations. The capitalist class, by virtue of its control over the means of production, holds significant economic and political power. This power allows the bourgeoisie to influence state policies and institutions in ways that maintain and enhance their economic dominance. The state, according to Marx, functions as an instrument of the ruling class, enacting policies that serve their interests (Marx & Engels, 1848).

The concentration of wealth and power in the hands of the capitalist class leads to widespread economic disparities. Marxist theory highlights how capitalism generates and exacerbates social inequalities. The unequal distribution of wealth results in varying access

to resources, opportunities, and social mobility for different classes. This economic disparity is not merely a byproduct of capitalism but a central feature of its functioning (Marx, 1867).

The Marxist political economy posits that policy outcomes are shaped by the interests of the dominant class. The capitalist class uses its economic power to influence political decisions, ensuring that policies align with their interests. This dynamic often leads to policies that favour capital accumulation and profit maximization at the expense of social welfare and labour rights. For example, labour laws, tax policies, and social welfare programmes are often designed or modified to benefit the capitalist class and sustain the capitalist system (Marx & Engels, 1848).

The Marxist political economy advocates revolutionary change as a means to address the inherent contradictions and injustices of the capitalist system. Marx and Engels argue that the proletariat, through collective action and class consciousness, must overthrow the bourgeoisie and establish a socialist system where the means of production are collectively owned. This revolutionary transformation aims to create a classless society where resources and wealth are distributed equitably (Marx, 1867; Marx & Engels, 1848).

While the Marxist political economy emerged in the 19th century, its insights remain relevant for analyzing contemporary economic and social issues. The theory provides a critical lens for examining how power, class, and economic interests shape policy outcomes in modern capitalist societies. It also offers a framework for understanding ongoing struggles for social and economic justice.

3.1.3. Neo-Marxist Political Economy

The Neo-Marxist political economy builds upon the foundations of classical Marxism by integrating insights from various other disciplines, such as sociology, anthropology, and cultural studies. This interdisciplinary approach enhances the understanding of economic and political processes by emphasizing the significant role of cultural and ideological factors.

Neo-Marxist scholars argue that traditional Marxist theory, while insightful, does not fully account for the complexity of social and cultural dimensions in shaping economic and political outcomes. By incorporating concepts from sociology and anthropology, Neo-Marxist political economy offers a more nuanced analysis of how power and inequality are reproduced within society. This includes examining the ways in which social structures, cultural norms, and everyday practices influence economic behaviour and policy decisions (Wright, 1997).

One of the key contributions of Neo-Marxist political economy is its focus on the role of cultural and ideological factors in shaping economic and political processes. This perspective highlights how dominant ideologies and cultural practices reinforce existing power structures and legitimize social inequalities. For instance, Antonio Gramsci's concept of cultural hegemony explains how the ruling class maintains control not only through economic dominance but also by shaping cultural and ideological norms to gain the consent of the subordinate classes (Gramsci, 1971).

Neo-Marxists argue that policy outcomes are influenced by the complex interplay of economic, political, and cultural forces. This holistic approach recognizes that economic policies cannot be understood in isolation from the broader social and cultural context. For example, policies related to labour rights, social welfare, and economic development are shaped by political power struggles, cultural beliefs, and social practices. Understanding these interactions is crucial for addressing social and economic inequalities (Harvey, 2005).

Neo-Marxist political economy emphasizes the need to address both economic and cultural dimensions of inequality. This includes challenging dominant ideologies and cultural practices that perpetuate discrimination and exclusion. By analyzing the ways in which cultural and ideological factors intersect with economic processes, neo-Marxist scholars aim to develop strategies for more equitable and inclusive policy outcomes (Eagleton, 1991).

The Neo-Marxist political economy often employs case studies and empirical analysis to illustrate how cultural and ideological factors influence economic and political outcomes. For example, studies of postcolonial societies have shown how colonial legacies and cultural narratives continue to shape economic policies and power relations. These analyses highlight the importance of considering historical and cultural contexts in understanding contemporary economic and political dynamics (Said, 1978).

The insights from Neo-Marxist political economy remain relevant for analyzing contemporary social and economic issues. In an increasingly globalized world, cultural and ideological factors play a significant role in shaping economic policies and outcomes. Neo-Marxist theory provides a critical lens for examining how power, culture, and ideology intersect to influence policy decisions and create social inequalities (Brenner, 2006).

3.1.4. Public Choice Theory

The public choice theory applies economic principles to the study of political behaviour, focusing on how individuals and groups make decisions within the political arena. It emphasizes the role of self-interest and incentives in shaping policy outcomes, and it argues that political actors - such as politicians, bureaucrats, and voters - behave as rational, self-interested individuals.

Public choice theory extends the tools and methods of economics to analyze political decision-making processes. It assumes that individuals, whether in the marketplace or the political arena, act based on self-interest and seek to maximize their utility. By applying concepts such as utility maximization, cost-benefit analysis, and game theory, public choice theorists aim to understand how political decisions are made and how different incentives influence these decisions (Buchanan & Tullock, 1962).

A fundamental premise of public choice theory is that political actors are rational and self-interested. Politicians seek to maximize their chances of re-election, bureaucrats aim to increase their budgets and job security, and voters make decisions based on their personal

preferences and perceived benefits. This rational self-interest drives their behaviour and shapes policy outcomes (Downs, 1957).

Public choice theory suggests that politicians are primarily motivated by the desire to gain and maintain political power. To achieve this, they seek to secure the support of voters and interest groups. As a result, policy outcomes often reflect the preferences of influential constituencies rather than the broader public interest. Politicians may engage in vote-buying, patronage, and other practices that align with their self-interest and help them stay in power (Riker, 1986).

Bureaucrats, according to public choice theory, seek to maximize their agency's budget and influence. This leads to a tendency for government agencies to grow over time, as bureaucrats lobby for increased funding and expanded responsibilities. The theory posits that bureaucratic behaviour contributes to inefficiencies and the expansion of government beyond its optimal size (Niskanen, 1971).

The public choice theory also examines the behaviour of voters. It introduces the concept of "rational ignorance," which suggests that voters have little incentive to become fully informed about political issues because the cost of acquiring information outweighs the potential benefits. Since an individual vote has a negligible impact on the outcome of an election, voters may remain uninformed or make decisions based on limited information and heuristics (Downs, 1957).

Public choice theorists analyze how collective decision-making processes, such as voting and legislative bargaining, lead to the provision of public goods and the resolution of collective action problems. They explore the challenges of designing institutions that can effectively manage public goods, minimize free-riding, and align individual incentives with the collective interest (Olson, 1965).

Another key concept in public choice theory is rent-seeking, which refers to the efforts of individuals and groups to secure economic gains through political means, such as lobbying for favourable regulations or subsidies. Rent-seeking behaviour can lead to regulatory capture, where regulatory agencies act in the interest of the industries they are supposed to regulate, rather than the public interest. This results in policies that benefit specific groups at the expense of overall economic efficiency (Tullock, 1967).

The public choice theory provides valuable insights into the incentives and behaviours of political actors, offering a framework for understanding the complexities of policymaking. By recognizing the self-interested motives of politicians, bureaucrats, and voters, public choice theory helps identify potential sources of inefficiency, corruption, and policy failure. It also highlights the importance of designing institutional arrangements that align individual incentives with the collective good and promote accountability and transparency (Buchanan & Tullock, 1962).

3.1.5. Institutional Political Economy

Institutional political economy examines the role of institutions in shaping economic and political outcomes. This field of study emphasizes how formal and informal rules, norms, and organizations influence the behaviour of actors and the distribution of power within society. Institutions, in this context, refer to the structures and mechanisms that govern social interactions and economic transactions, including laws, regulations, conventions, and organizational arrangements.

Institutions are central to institutional political economy as they provide the framework within which economic and political activities take place. By establishing a set of rules and norms, institutions create stability and predictability, enabling individuals and organizations to make informed decisions. Douglass North, a key figure in this field, defines institutions as the "rules of the game" in a society, which include both formal constraints (such as laws and regulations) and informal constraints (such as norms and conventions) (North, 1990).

Institutions shape the behaviour of economic and political actors by setting the parameters for acceptable actions and interactions. They influence the distribution of power by determining who has access to resources, opportunities, and decision-making processes. For example, property rights, corporate governance structures, and labour regulations all impact how resources are allocated and who holds economic power (Acemoglu & Robinson, 2012).

One of the key arguments of institutional political economy is that institutions provide stability and predictability. By reducing uncertainty and transaction costs, institutions facilitate cooperation and coordination among actors. This, in turn, promotes economic efficiency and growth. However, the stability provided by institutions can also perpetuate existing power structures and inequalities. Once established, institutions tend to be path-dependent, meaning that they evolve in ways that reinforce the status quo rather than promote change (North, 1990).

While institutions can create a stable environment for economic activities, they can also entrench existing power imbalances and social inequalities. Institutional arrangements often reflect the interests of powerful groups who have the ability to shape the rules to their advantage. For instance, Acemoglu and Robinson (2012) argue that "extractive" institutions—those that concentrate power and resources in the hands of a few—tend to stifle economic development and exacerbate inequality. In contrast, "inclusive" institutions, which distribute power more broadly and encourage participation, are associated with more equitable and sustainable development.

Institutional political economy distinguishes between formal and informal institutions. Formal institutions include codified rules such as constitutions, legal systems, and official regulations. Informal institutions encompass unwritten norms, traditions, and social conventions that influence behaviour. Both types of institutions interact and shape economic and political outcomes. For example, cultural norms around trust and cooperation can complement formal contractual arrangements, thereby enhancing economic performance (Williamson, 2000).

Understanding the role of institutions is crucial for designing effective policies. Policymakers need to consider how institutional arrangements influence economic behaviour and outcomes. Reforms aimed at improving governance, property rights, and regulatory frameworks can have significant impacts on economic performance. However, institutional change is often challenging due to resistance from entrenched interests and the complexity of altering established norms and practices (North, 1990; Acemoglu & Robinson, 2012).

3.1.6. New Institutional Economics

New institutional economics (NIE) extends the insights of institutional political economy by incorporating concepts from neoclassical economics. It aims to understand how institutions influence economic performance and policy outcomes by focusing on the role of transaction costs and the importance of a cooperative framework. New institutional economists argue that well-designed institutions can significantly promote economic growth and development by aligning incentives and reducing uncertainty.

New institutional economics builds on the principles of neoclassical economics, which emphasize the role of market mechanisms and individual decision-making in resource allocation. However, NIE goes beyond neoclassical assumptions by recognizing that markets are not always perfectly competitive and that transaction costs can be substantial. Transaction costs refer to the costs associated with exchanging goods and services, such as search and information costs, bargaining and decision costs, and enforcement costs (Coase, 1937).

NIE posits that institutions play a crucial role in reducing transaction costs, thereby facilitating economic exchanges and enhancing efficiency. Institutions provide rules and norms that govern interactions, reducing the uncertainty and risks associated with economic transactions. By lowering transaction costs, institutions enable more efficient market functioning and greater specialization and division of labour (North, 1990).

Institutions also create a framework for cooperation among economic agents. They establish a legal and regulatory environment that enforces contracts, protects property rights, and resolves disputes. This cooperative framework is essential for fostering trust and ensuring that economic actors can engage in mutually beneficial transactions. Effective institutions promote cooperation by aligning incentives and creating a stable environment for economic activity (Williamson, 2000).

NIE examines how different institutional arrangements impact economic performance and policy outcomes. For example, inclusive institutions that ensure broad access to resources and opportunities are associated with higher levels of economic growth and development. In contrast, extractive institutions that concentrate power and resources in the hands of a few can hinder economic progress and perpetuate inequalities (Acemoglu & Robinson, 2012). By analyzing the relationship between institutions and economic outcomes, NIE provides insights into the design of policies that promote growth and development.

A key argument of NIE is that well-designed institutions align individual incentives with the collective good, thereby promoting economic efficiency and growth. Institutions achieve this by creating predictable and transparent rules that guide behaviour and reduce uncertainty. For instance, clear property rights and contract enforcement mechanisms encourage investment and innovation by ensuring that individuals and firms can reap the benefits of their efforts (North, 1990).

NIE emphasizes that institutions are critical for sustained economic growth and development. Effective institutions create an environment conducive to entrepreneurship, investment, and technological advancement. By reducing transaction costs, facilitating cooperation, and aligning incentives, institutions enable economies to achieve higher levels of productivity and development (Rodrik, Subramanian, & Trebbi, 2004).

Numerous empirical studies and case studies support the insights of NIE. Research has shown that countries with strong, inclusive institutions tend to experience higher levels of economic growth and development. For example, the success of the East Asian "tiger" economies has been attributed to their effective institutional frameworks that support industrial policies, investment in human capital, and export-led growth (Johnson, 1982). In contrast, countries with weak or extractive institutions often struggle with economic stagnation and persistent poverty.

3.1.7. International Political Economy (IPE)

International political economy (IPE) is a field of study that examines the interactions between political and economic processes at the global level. It seeks to understand how power, interests, and institutions shape economic outcomes and policies across countries. IPE is inherently interdisciplinary, drawing on insights from political science, economics, sociology, and international relations to analyze the complexities of the global economy.

IPE explores the dynamic interplay between political and economic forces in the international arena. It considers how political decisions and power structures influence economic policies, trade relationships, and financial flows, and vice versa. This reciprocal relationship underscores the importance of understanding both political and economic dimensions to fully grasp global economic phenomena (Gilpin, 2001).

The central focus of IPE is the role of power and interests in shaping global economic outcomes. Different actors, including states, multinational corporations, international organizations, and non-governmental organizations, wield varying degrees of power and have distinct interests. IPE examines how these actors interact within institutional frameworks to influence policy decisions and economic outcomes. For instance, powerful states may leverage their influence to shape trade agreements and international norms that align with their economic interests (Keohane, 1984).

IPE analyzes the role of international organizations and global governance structures in shaping economic policies and promoting economic integration. Organizations such as the International Monetary Fund (IMF), the World Bank, and the World Trade Organization

(WTO) play critical roles in regulating and facilitating global economic activities. These institutions provide forums for negotiation, establish rules and standards, and offer financial assistance and policy advice to member countries. IPE scholars study how these organizations impact global economic stability, development, and the distribution of wealth and power (Blyth, 2002).

Trade agreements are a key area of interest in IPE, as they represent formal arrangements between countries to regulate trade and investment flows. Bilateral, regional, and multilateral trade agreements, such as the North American Free Trade Agreement (NAFTA) and the European Union (EU), are analyzed to understand their economic and political implications. IPE examines how trade agreements influence economic integration, market access, labour standards, and environmental regulations. It also considers the political negotiations and compromises that underpin these agreements (Bhagwati, 2002).

Global economic governance encompasses the rules, norms, and institutions that regulate international economic activities. IPE scholars investigate how these governance structures are created, maintained, and contested. This includes examining the role of major economies, such as the United States, China, and the European Union, in shaping global economic governance. Additionally, IPE analyzes the impact of emerging economies and regional blocks on the balance of power and the evolution of global economic governance (Woods, 2006).

IPE addresses issues of economic inequality and development on a global scale. It considers how international economic policies and institutions impact the distribution of wealth and opportunities among countries and within societies. IPE scholars explore the effects of globalization, trade liberalization, and financial flows on economic development and inequality. They also assess the implications of international economic policies for poverty reduction, social welfare, and sustainable development (Stiglitz, 2002).

The field of IPE is constantly evolving to address contemporary global challenges. Current issues of interest include the impact of digital globalization, the rise of populism and economic nationalism, the implications of climate change for global economic governance, and the changing landscape of international finance. IPE provides a framework for understanding these complex and interconnected issues, offering insights into how global economic policies and institutions can adapt to new realities (Tooze, 2018).

3.1.8. Political Settlement

A political settlement refers to the tacit or explicit agreement among a society's most powerful groups regarding the rules of the political and economic game. This agreement aims to maintain peace and stability by providing opportunities for these groups to secure a distribution of benefits (such as resources, rights, and status) that they find acceptable. Political settlements are crucial for understanding the dynamics of power and governance in a society, especially in post-conflict or developing contexts (Khan, 2010).

Political settlements involve negotiations among powerful groups, which can include political elites, military leaders, business tycoons, and influential social or ethnic groups. These groups have the capacity to shape the rules and institutions that govern society (Khan, 2010). For example, in many developing countries, political power is often concentrated in the hands of a few elite families or business groups who wield significant influence over political and economic decisions.

The agreement typically outlines the rules and norms that govern political and economic interactions. This can include the distribution of resources, the structure of political institutions, and the mechanisms for resolving conflicts (Khan, 2010). These rules determine how political power is exercised, how economic resources are allocated, and how disputes are managed. They provide a framework for understanding the formal and informal institutions that shape governance and development.

A key aspect of political settlements is the allocation of benefits among the powerful groups. This can involve sharing political power, economic resources, and social status to ensure that each group has a stake in maintaining the settlement (North et al., 2009). For instance, in post-conflict societies, political settlements often include power-sharing arrangements to ensure that former adversaries have a role in the new government. This helps to prevent the re-emergence of conflict by giving all major groups a vested interest in the stability of the state.

The primary goal of a political settlement is to prevent generalized civil war or political and economic disorder. By providing a framework for cooperation and conflict resolution, political settlements aim to create a stable and peaceful environment (DFID, 2010). Stability is achieved by addressing the grievances of powerful groups and creating mechanisms for peaceful dispute resolution. This is particularly important in fragile states where the risk of conflict is high.

Political settlements can be inclusive or exclusive. Inclusive settlements involve a broad coalition of powerful groups and aim to promote social justice and equitable development. Inclusive settlements are characterized by broad participation and a commitment to addressing the needs of marginalized groups (Khan, 2010). They often involve the inclusion of previously excluded groups, such as ethnic minorities or women, in political and economic decision-making processes. This inclusiveness helps to build social cohesion and legitimacy for the government.

Exclusionary settlements are dominated by a narrow elite and often result in the marginalization of other groups. Exclusionary settlements can lead to social unrest and conflict if excluded groups feel disenfranchised and seek to challenge the status quo (DFID, 2010). Such settlements often concentrate power and resources in the hands of a few, leading to inequalities and tensions that can undermine stability. For example, regimes that exclude opposition groups from political participation may face persistent challenges to their legitimacy and authority.

Understanding political settlements is crucial for development interventions, as it helps to tailor policies and programmes to the local political context. By aligning development efforts with the realities of the political settlement, interventions can be more effective and sustainable. For instance, promoting inclusive political settlements can enhance social cohesion and reduce the risk of conflict, while exclusionary settlements may require targeted efforts to address inequality and promote inclusion (Khan, 2010). Development agencies and policymakers must consider the political dynamics and power relations that influence governance and economic outcomes to design effective strategies.

3.1.9. Deals Space Framework

The "Deals Space" is a conceptual framework introduced by Lant Pritchett, Kunal Sen, and Eric Werker in their book *Deals and Development: The Political Dynamics of Growth Episodes*, published in 2018. This framework is designed to understand the political economy of business-government relations and how these interactions influence economic growth episodes in developing countries.

Pritchett et al (2018) also talk about political settlement as a key component for the deals space analysis. As discussed earlier, political settlement refers to the underlying power distribution among a society's elite groups and the rules that govern their interactions. This settlement provides the context within which deals are made between economic and political elites. The nature of the political settlement affects the stability and inclusiveness of the deals space. For example, a political settlement that includes broad-based support and power-sharing arrangements is more likely to foster an inclusive and stable deals space (Pritchett et al. 2018).

Pritchett et al (2018) emphasise the rent space which focuses on the distribution of economic rents, which are the returns to assets that exceed the normal competitive level. These rents can arise from various sources, such as natural resources, monopolistic market structures, or government-granted privileges. The distribution and management of rents are influenced by the political settlement and affect the incentives for economic actors to engage in productive or rent-seeking behaviour (Pritchett et al. 2018).

Pritchett et al. (2018) contend that a key distinction between countries of the Global South and the Global North is that only the latter have been successful in developing formal institutions (laws, policies, regulations) that enforce rules impersonally, thereby creating a transparent and (largely) level playing field for a competitive market economy. In contrast, economies of the Global South are characterized by the necessity for market participants to employ "deliberate efforts to influence policy actors who have discretionary control over the [application of laws and regulations]," (Pritchett et al. 2018, p. 27) thus brokering deals rather than adhering to rules. This, in turn, fosters a business environment rife with endemic corruption and widespread bribery, which, on the surface, appears rather unfavourable for economic development. Based on this distinction, they argue that various forms of deals environments exist, some of which are more conducive to economic growth than others. According to Pritchett et al. (2018), deals space is characterized by the following dimensions: (1) Open vs. Closed: An open deals space is characterized by transparent, competitive, and

accessible agreements where many actors can participate. In contrast, a closed deals space is dominated by a few elites, with limited competition and access. (2) Ordered vs. Disordered: An ordered deals space is predictable and rule-based, with clear and consistent enforcement of agreements. A disordered deals space is characterized by unpredictability, arbitrary enforcement, and frequent renegotiation of deals (Pritchett et al. 2018).

The deals space framework highlights the interconnectedness of the political settlement, rent space, and deals space. Changes in any one of these components can influence the others and, consequently, affect economic growth and development. For example, a more open and ordered deals space can promote competition, attract investment, and enhance productivity, leading to sustained economic growth. Conversely, a closed and disordered deals space can result in rent-seeking behaviour, corruption, and economic stagnation (Pritchett et al. 2018).

The deals space framework is applied to various country case studies in Africa and Asia, including Bangladesh, Cambodia, India, Malaysia, Thailand, Ghana, Liberia, Malawi, Rwanda, and Uganda. These case studies demonstrate how the deals space framework can explain the emergence and sustainability of growth episodes in different institutional and political contexts. For instance, In Bangladesh, the garment industry has successfully lobbied for industry-specific reforms that have created a more ordered and predictable business environment, leading to sustained growth in the sector (Pritchett et al 2018). In Cambodia, the political settlement involving close ties between business elites and the government has resulted in a deals space that is relatively open but disordered, leading to rapid but uneven economic growth (Pritchett et al. 2018).

Understanding the deals space is crucial for designing effective development policies. By aligning interventions with the realities of the political settlement and the deals space, policymakers can create more conducive environments for economic growth and structural transformation. This includes promoting transparency, reducing corruption, and fostering inclusive economic policies that benefit a broader range of society. For example, efforts to open up the deals space by promoting competition and transparency can help attract investment and stimulate economic growth (Pritchett et al. 2018).

The deals space framework provides a valuable tool for analyzing the political economy of growth episodes in developing countries. By examining the interactions between political settlements, rent distribution, and business-government deals, it offers insights into the conditions that foster or hinder economic development. Policymakers and development practitioners can use this framework to design strategies that promote inclusive and sustained growth.

3.2. Which Theory or Framework is Suitable for Understanding the Political Economy of Social Insurance in the RMG Industry in Bangladesh? A Syntheses of the Political Economy Theories and Frameworks

The RMG industry in Bangladesh is not only a cornerstone of the nation's economy but also a sector emblematic of its developmental trajectory. Employing millions of workers, many of

whom are women from marginalized backgrounds, the RMG industry presents a unique interplay of economic dynamism and socio-political challenges. Despite its significant contributions to GDP and export earnings, the sector is characterized by inadequate social insurance provisions, leaving workers vulnerable to economic shocks and health crises. Addressing this issue requires a nuanced analysis of the political economy, incorporating insights from theories that emphasize the interaction of power, interests, and institutional frameworks.

The Marxist and Neo-Marxist political economy frameworks provide an essential starting point by highlighting the role of class dynamics and the exploitation inherent in capitalist structures. In the context of the RMG industry, these frameworks underscore how the dominance of factory owners—the bourgeoisie—shapes policy outcomes to prioritize profitability over worker welfare. The historical and systemic marginalization of labour rights in favour of capital accumulation reflects the power imbalance that these theories critique. Applying this lens reveals how social insurance policies are often obstructed or diluted by the vested interests of powerful stakeholders who benefit from maintaining the status quo. However, while these theories are critical in identifying structural inequities, their focus on revolutionary change may limit their applicability to pragmatic policy reforms in a complex political environment like Bangladesh.

Institutional Political Economy (IPE) offers a more adaptable approach by focusing on the role of formal and informal institutions in shaping policy outcomes. Institutions in the RMG sector—from labour laws and regulatory bodies to informal practices and norms—play a pivotal role in determining workers' access to social insurance. For example, while formal legislation may mandate certain protections, weak enforcement mechanisms and the influence of industry lobbies often undermine their implementation. IPE's emphasis on path dependency is particularly relevant, as historical institutional arrangements in Bangladesh have entrenched power dynamics that resist progressive change. Understanding these institutional barriers is crucial for designing reforms that can navigate and transform existing structures.

The Deals Space Framework complements IPE by analyzing the interactions between political and economic elites and their impact on policy development. In Bangladesh, the RMG sector's growth has been facilitated by ordered deals between the government and industry leaders, creating a stable environment for investment and expansion. Extending this framework to include social insurance involves reconfiguring these deals to incorporate worker welfare as a shared priority. The framework's distinction between open and closed, and ordered and disordered deals, provides a nuanced tool for assessing how inclusivity and predictability in negotiations can foster equitable outcomes. For instance, enabling labour representatives to participate in deal-making processes could ensure that social insurance schemes address workers' actual needs while maintaining industrial competitiveness.

Political Settlement theory further enriches the analysis by examining the distribution of power among elites and its implications for governance and resource allocation. In the RMG sector, political settlements often reflect the dominance of business elites who wield significant influence over policy decisions. These settlements determine the extent to which

social insurance reforms can be advanced without disrupting the underlying balance of power. Inclusive political settlements, which incorporate a broader coalition of stakeholders, are essential for achieving sustainable and equitable policy outcomes. Aligning the interests of factory owners, government officials, and labour groups requires careful negotiation to ensure that all parties perceive social insurance as beneficial to their long-term objectives.

While each of these frameworks offers valuable insights, the combined application of Institutional Political Economy and the Political Settlement Framework is particularly well-suited for analyzing the political economy of social insurance in Bangladesh's RMG sector. IPE provides a detailed understanding of the institutional dynamics that shape policy implementation, while the Political Settlement Framework captures the interactions among stakeholders to achieve a consensus that drives policy innovation. Together, these frameworks offer a comprehensive lens for identifying barriers to reform and opportunities for inclusive growth.

The application of these frameworks necessitates several strategic actions. First, strengthening labour laws and their enforcement is essential to create a baseline of protection for workers. This includes investing in the capacity of regulatory bodies and ensuring that violations are met with consistent penalties. Second, fostering inclusivity in policy development requires bringing labour representatives and civil society organizations into the decision-making process. Transparent and participatory negotiations can help align the interests of all stakeholders, creating a shared commitment to social insurance reforms.

Additionally, pilot programmes can serve as a valuable tool for testing and refining social insurance schemes. Implementing these programmes in select RMG clusters allows policymakers to gather evidence on their feasibility and effectiveness, which can inform broader implementation strategies. Finally, international partnerships and donor support can provide the technical and financial resources needed to overcome initial barriers to reform. Collaborating with global organizations experienced in labour rights and social protection can enhance the design and execution of these initiatives.

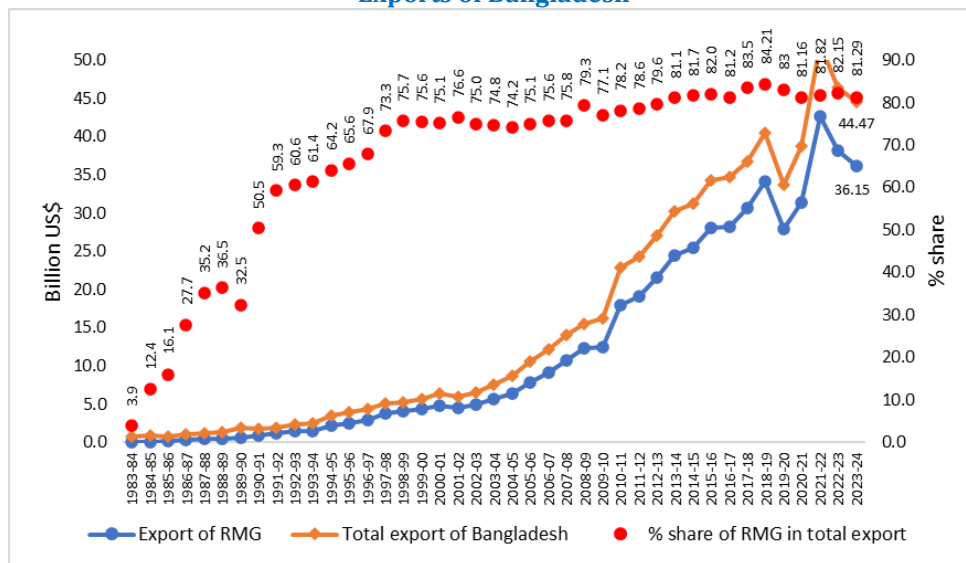
4. Political Economy Analysis of the RMG Sector in Bangladesh

4.1. Overview of the RMG Sector in Bangladesh

The textile and apparel industry serves as an entry point for many developing countries to begin industrialisation. The low barriers to entry and the high wages in developed countries have created favourable conditions for manufacturing and exporting textile and apparel products (Kim et al., 2006). This is due to two primary reasons: first, textiles and apparel are essential consumption items for everyone; and second, apparel manufacturing is labour-intensive and requires relatively little fixed capital, yet it can generate substantial employment opportunities. The Asia-Pacific region has emerged as one of the most competitive areas for textile and apparel manufacturing, with approximately 50% of these products being exported from the region (Kim et al., 2006).

RMG exports from Bangladesh have seen a remarkable increase over the past three and a half decades. Figure 1 shows that in 1983-84, RMG exports were minimal, but by 2023-24 they had surged to US\$ 36.2 billion. This growth in RMG exports has driven a significant rise in the country's total exports of goods and services, which increased from US\$ 0.8 billion to US\$ 44.5 billion over the same period.

Figure 1: Sizes of Total and RMG Exports (billion US\$) and Percentage Share of RMG in the Total Exports of Bangladesh

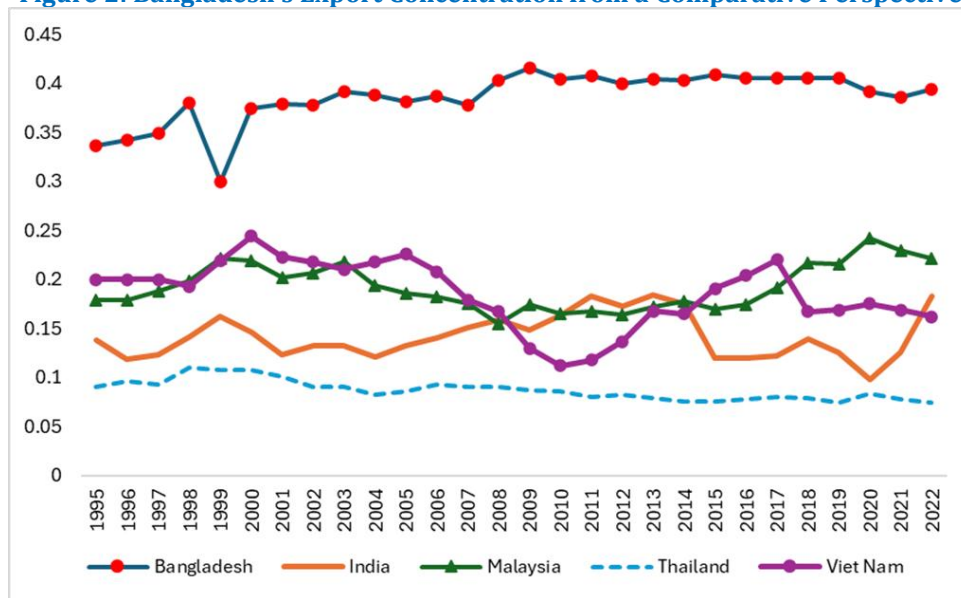


Data source: https://www.bgmea.com.bd/page/Export_Performance

Figure 1 also demonstrates that the contribution of RMG to total exports has risen significantly, from just 3.9% in 1983-84 to an impressive 81.3% in 2023-24. This indicates that, recently, the export portfolio has become increasingly dominated by RMG exports. Despite the country's remarkable economic growth, the narrow export base and limited export markets remain a concern. Even with policy reforms and various incentives, Bangladesh has struggled to diversify its export structure.

Bangladesh's export concentration³⁸ is higher than that of any other country (Figure 2). The comparable countries are India, Malaysia, Thailand, and Vietnam. The marked differences in export concentration between Bangladesh and those of other countries are noteworthy. Also, one important point to note here is that while some countries have, in general, experienced declining export concentration indices, Bangladesh's export concentration indices increased during the period between 1995 and 2022.

Figure 2: Bangladesh's Export Concentration from a Comparative Perspective



Data source: UNCTAD: <http://unctadstat.unctad.org/EN/Index.html>

Figure 3 showcases the export composition of Bangladesh compared to its main competitors: China, India, and Vietnam. It becomes evident that while Bangladesh's export basket heavily relies on RMG, the export baskets of China, India, and Vietnam are much more diversified. The high export concentration in Bangladesh is driven not only by the impressive performance of RMG exports but also by the weak performance of non-RMG exports. The

³⁸ Concentration index, also named Herfindahl-Hirschmann Index (Product HHI), is a measure of the degree of product concentration. The following normalised HHI is used in order to obtain values between 0 and 1:

$$H_j = \frac{\sqrt{\sum_{i=1}^n \left(\frac{x_{ij}}{X_j} \right)^2} - \sqrt{1/n}}{1 - \sqrt{1/n}}$$

where

H_j = country or country group index

x_{ij} = value of export for country j and product i

$$X_j = \sum_{i=1}^n x_{ij}$$

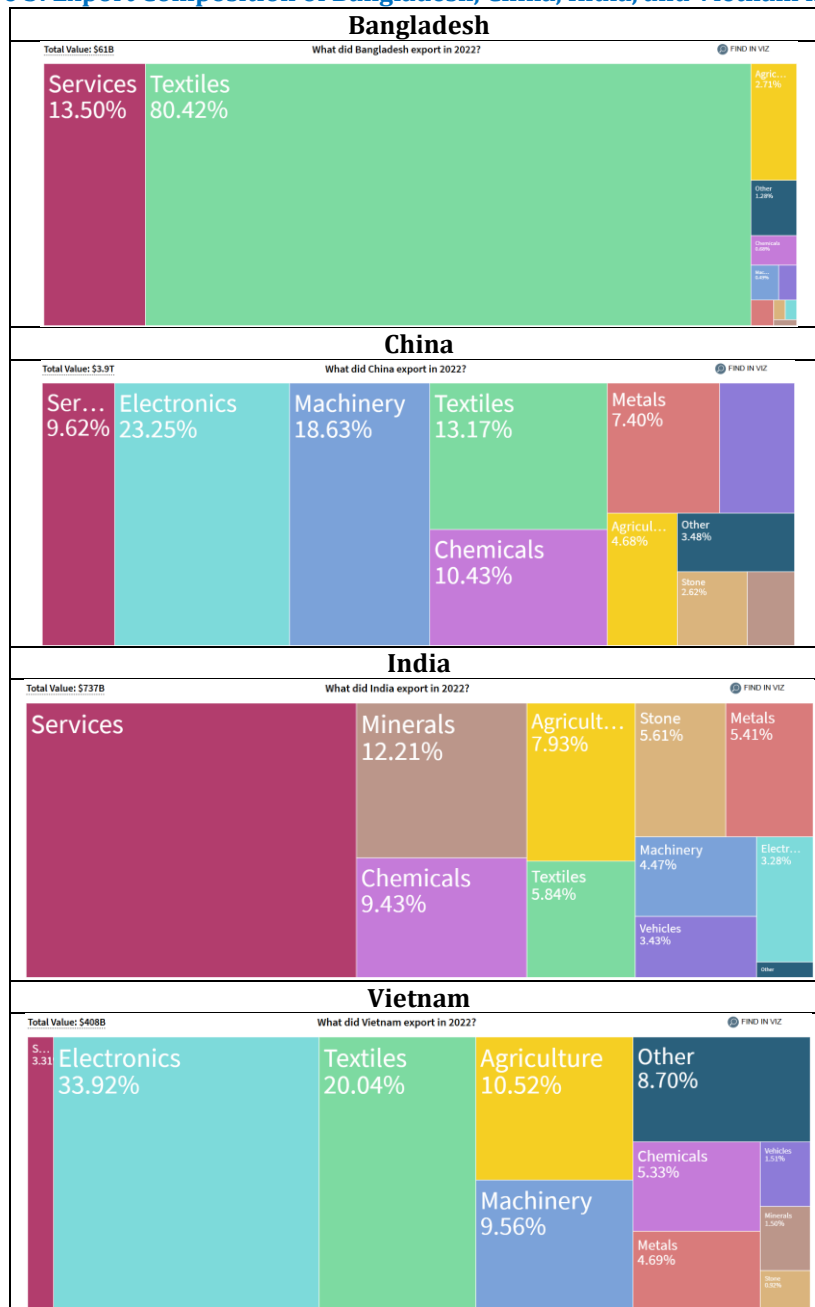
and

n = number of products (SITC Revision 3 at 3-digit group level).

An index value closer to 1 indicates a country's exports or imports are highly concentrated on a few products. By contrast, values closer to 0 reflect exports or imports that are more homogeneously distributed among a series of products.

growth of RMG exports since the early 1980s, especially from 2003 onward, has been particularly noteworthy.

Figure 3: Export Composition of Bangladesh, China, India, and Vietnam in 2022



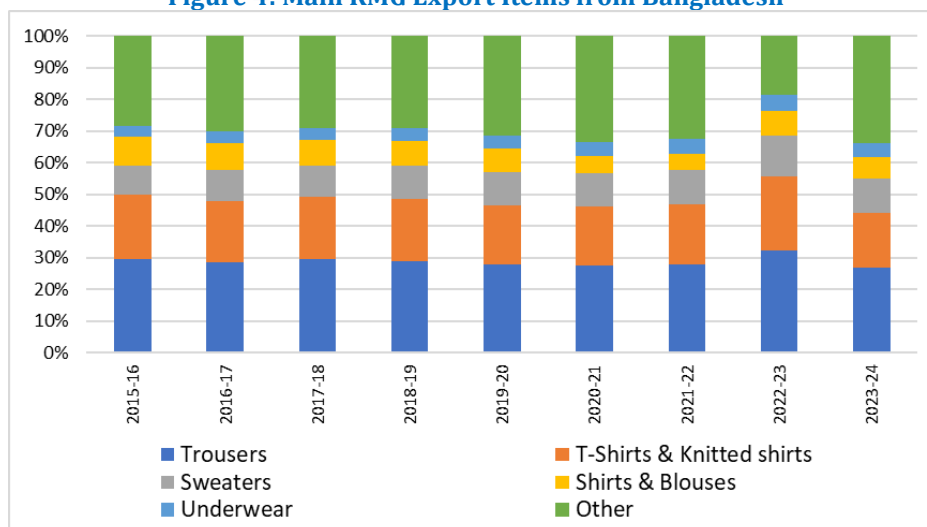
Data source: <http://atlas.cid.harvard.edu/>

The number of RMG factories in Bangladesh has increased quite remarkably since 1984-85. While in 1984/85, there were only 384 factories, the number had increased to 5,876 by

2012/13. After the infamous Rana Plaza incident in 2013,³⁹ the number of RMG factories then declined sharply. In 2022, the number was 3,723.⁴⁰ Raihan (2024) highlights that the major structural change that is currently occurring in the RMG industry is the introduction of labour-saving machinery for the kind of jobs which were previously done mostly by low-skilled female workers. This has resulted in substantial gains in productivity in the RMG industry in recent years.

The composition of the RMG export products has also seen a major shift over the past decades. In the early years, the RMG exports from Bangladesh were predominantly woven RMG. In 1992-93, more than 85% of RMG exports were woven RMG. Over the years, the share of knitwear has increased, and by 2023-24, woven and knitwear had shares of 47% and 53% respectively. The main RMG export items from Bangladesh are trousers, T-shirts & knitted shirts, sweaters, shirts & blouses, and underwear (Figure 4). These five items together account for around 70% of the RMG exports from Bangladesh.

Figure 4: Main RMG Export Items from Bangladesh



Data source: https://www.bgmea.com.bd/page/Export_Performance

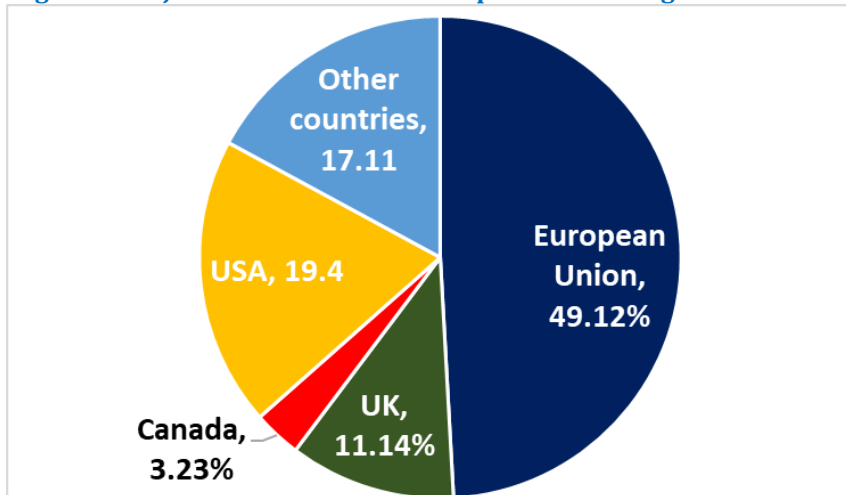
It is also important to note that Bangladesh's RMG export markets are highly concentrated, with the EU and North America being the major destinations. In 2022, around 50% of the country's RMG exports went to the EU, while another 23% was destined for North America (Figure 5). In Europe, the major destinations of Bangladesh's RMG exports are Germany, the UK, Spain, and France. The major reason behind the EU becoming the dominant destination of RMG exports is the duty-free-quota-free (DFQF) market access in the EU market under the Everything But Arms (EBA) initiative for LDCs.⁴¹

³⁹ On 24 April 2013, an eight-story commercial building called Rana Plaza, in the Savar Upazila of Dhaka District, Bangladesh, collapsed. The Plaza housed five RMG factories and the collapse killed at least 1,134 people and injured more than 2,500 (See <https://cleanclothes.org/campaigns/past/rana-plaza>).

⁴⁰ <https://www.textiletoday.com.bd/bangladesh-lists-3723-rmg-factories-mib-website>

⁴¹ The EBA initiative, introduced in 2001 under the EU's GSP scheme, grants LDCs duty- and quota-free access for almost all products (as the programme's name indicates, arms and ammunition are excluded). Access to the scheme is automatic for LDCs as countries do not need to apply to benefit from EBA, they are added to or removed from a relevant list through a delegated regulation. However, EBA preferences can be withdrawn under certain exceptional circumstances, notably in

Figure 5: Major Destination of RMG Exports from Bangladesh in 2022



Data source: https://www.bgmea.com.bd/page/Export_Performance

4.2. The RMG Model of Export Success: The Political Economy Dynamics

Raihan (2024) offers an in-depth analysis of the remarkable growth and ongoing success of Bangladesh's RMG industry, positioning it as a cornerstone of the nation's economic transformation. Central to this success was the Multi-Fibre Arrangement (MFA), an international trade framework that offered preferential market access to countries like the European Union (EU) and the United States. Under the MFA, Bangladesh enjoyed guaranteed quotas for its exports, enabling the industry to flourish during the 1980s and 1990s. This arrangement provided critical leverage in the highly competitive global garment market, allowing Bangladesh to gradually establish itself as a dominant player in the textile and garment sector.

The rapid rise of the RMG industry owes much to a combination of pioneering entrepreneurs, foreign investment, and strong government backing. Early visionaries in the sector capitalized on the favourable international trade climate, while the Bangladeshi government played a pivotal role in nurturing the industry. Government policies that promoted industrialization, alongside subsidies and facilities like bonded warehouses, provided a critical foundation for the growth of the RMG sector. These measures allowed manufacturers to access raw materials without paying customs duties, which boosted competitiveness and expanded production capacity. This public-private partnership helped establish a vibrant industry that became a cornerstone of the country's export economy.

However, while the growth of the RMG sector significantly contributed to Bangladesh's transformation into a trade-oriented economy, it has also been accompanied by numerous challenges. One of the most persistent concerns has been the sector's labour rights issues, particularly in relation to working conditions, wages, and workers' rights to unionize.

the case of serious and systematic violation of principles of human rights and labour rights conventions (see www.un.org/ldcportal/preferential-market-access-european-union-everything-but-arms-initiative/).

Despite the sector's impressive export performance and economic contributions, labour conditions within many factories have been described as akin to sweatshops, with workers facing low wages, long hours, and hazardous environments. These challenges have drawn both domestic and international attention, particularly in the wake of high-profile incidents such as the 2013 Rana Plaza collapse, which claimed the lives of over a thousand workers and exposed the sector's failure to adhere to basic safety standards.

Raihan (2024) also underscores the role of both global and domestic factors in sustaining the RMG industry's growth. On the global stage, institutional arrangements like the MFA were instrumental in securing preferential access to key markets, which drove exports and helped establish Bangladesh as a leading supplier of garments. Domestically, political settlements played a crucial role in facilitating the industry's success. Informal political arrangements and networks, particularly among elites, helped the industry navigate weak formal institutions, providing access to rent-sharing mechanisms and securing tax benefits, subsidies, and favourable policies that further entrenched the sector's dominance.

The collective strength of the RMG industry, represented by powerful organizations like the BGMEA, has been a key factor in securing these advantages. Through lobbying and political manoeuvring, the BGMEA has been able to exert significant influence over policy decisions, ensuring that the industry continues to receive preferential treatment and support from the state. This informal network of political and economic arrangements has created what some refer to as "pockets of efficient informal institutions," which have been crucial to the sustained performance of the sector. These institutions have allowed the industry to function effectively despite the broader challenges posed by weak regulatory oversight and limited enforcement of labour laws.

Despite the significant contributions of the RMG sector to Bangladesh's economy, labour rights remain a pressing issue. Sweatshop-like conditions, low wages, and poor safety standards persist, with limited union representation and collective bargaining power among workers. Labour unrest has periodically resulted in wage increases and improvements in working conditions, but these changes have been slow and uneven. The minimum wage for workers in the RMG sector, while having risen over time, still remains significantly lower than global standards, and gender wage disparities are also prevalent. The sector's continued reliance on low-cost labour underscores the broader challenges faced by workers in an industry that contributes billions of dollars to the national economy.

Subcontracting in the RMG industry has also been a contentious issue. Many manufacturers rely on subcontracted labour to meet the demand for lower-priced garments, often at the expense of adhering to safety and labour standards. This system has been criticized for creating a fragmented and opaque supply chain that allows for the exploitation of workers and circumvention of regulatory oversight. The use of subcontracting has also led to the proliferation of informal work arrangements, where workers often face even more precarious conditions and fewer protections than in formal factories.

In addition to garment production, the RMG sector has generated additional rents through by-products such as fabric scraps, known as "jhut." While these by-products have created

informal employment opportunities, they have also contributed to local conflicts and unrest, as the recycling and disposal of these materials can lead to environmental and social issues. This ancillary aspect of the RMG industry highlights the broader economic and social impact of the sector, extending its influence well beyond the traditional boundaries of garment production and export.

In conclusion, the RMG industry in Bangladesh serves as a powerful example of how a combination of global trade dynamics, domestic policy support, and informal institutional arrangements can drive economic growth in a developing country. However, this success story is tempered by significant social and regulatory challenges, particularly in terms of labour rights, working conditions, and compliance with safety standards. As Bangladesh seeks to sustain and further develop its RMG sector, addressing these issues will be crucial to ensuring that the industry remains both competitive in the global market and responsible in its treatment of workers.

4.3. Rationale for Comparison with Cambodia and Nepal

The rationale for comparing Bangladesh, Cambodia, and Nepal also lies in their shared status as Least Developed Countries (LDCs), which shapes their economic structures, developmental challenges, and policy priorities. Despite this shared status, the countries exhibit diverse trajectories in social protection, influenced by variations in political ideologies, institutional capacities, and elite dynamics. Bangladesh and Nepal are set to graduate from LDC status in November 2026, marking a critical juncture in their developmental pathways. Graduation from LDC status entails reduced access to certain international support measures, such as preferential trade agreements and concessional financing, which could affect their ability to finance and sustain social protection programs. Cambodia, while not scheduled for immediate graduation, faces similar challenges as an LDC striving to balance economic growth with the expansion of social insurance systems. This comparison provides valuable insights into how these countries navigate the complexities of social insurance policy in the context of LDC-specific constraints, while also preparing for the transition to middle-income status. By examining their experiences, policymakers can better understand the interplay between structural challenges, international commitments, and domestic reforms, offering lessons for sustainable social protection in LDCs and beyond.

The RMG industries in Bangladesh, Nepal, and Cambodia each represent significant components of their respective economies, yet each faces distinct challenges and opportunities shaped by unique domestic and international factors. Comparing the RMG sectors in these three countries is crucial for understanding the features and difficulties common to smaller, export-oriented garment industries in developing countries. Despite the common thread of garment manufacturing, their paths to development, regulatory environments, and labour conditions highlight distinct similarities and differences that offer insights into the broader dynamics of global garment production.

Bangladesh is widely regarded as one of the world's largest exporters of garments, with the industry playing a pivotal role in its economy. The RMG sector accounts for a substantial portion of Bangladesh's exports and employs millions, primarily women. The industry's

rapid growth is largely attributed to the Multi-Fiber Arrangement (MFA) and the EU's preferential tariff scheme EBA (Everything But Arms), which secured preferential market access, and the government's proactive policies supporting the sector, such as subsidies, bonded warehouse facilities, and tax incentives. However, the sector has long struggled with labour rights issues, such as sweatshop conditions, low wages, poor safety standards, and limited unionization. High-profile incidents like the 2013 Rana Plaza disaster exposed weaknesses in regulatory oversight, prompting some reforms but revealing the deep-rooted challenges in improving labour conditions.

In contrast, Nepal's RMG sector is much smaller, and its export base is much more limited compared to Bangladesh. The industry in Nepal is characterized by its focus on high-value, niche markets, especially in the production of woollen garments and pashmina, which cater to a specific segment of the global market.⁴² Nepal's garment sector faces challenges such as political instability, inadequate infrastructure, and limited access to international markets. Furthermore, the country lacks the same level of government support for the industry that Bangladesh has provided. Nepali RMG firms are also hampered by small-scale operations and a lack of competitiveness, which makes it difficult for the sector to benefit from economies of scale. Despite these challenges, Nepal's RMG industry has shown resilience, relying heavily on its traditional artisan skills and niche products to maintain its place in global markets.

Cambodia's RMG sector has witnessed impressive growth, especially since the country gained favourable trade access, as an LDC, to the EU under the Everything But Arms (EBA) initiative, which granted Cambodia duty-free access to European markets⁴³ and also to the United States market through the GSP. Cambodia's garment industry has expanded rapidly in recent years, employing a large workforce, similar to Bangladesh. However, Cambodia's RMG industry is more reliant on foreign investment, particularly from China and other Asian countries, and faces challenges in terms of labour conditions and compliance with international standards. In comparison to Bangladesh, Cambodia's industry is relatively newer, but it has grown quickly, and it faces similar issues related to poor working conditions, low wages, and limited union representation. The government in Cambodia has made efforts to improve labour rights and working conditions, yet like Bangladesh, Cambodia's efforts remain incomplete, and there is a need for better regulatory enforcement.

The comparison between these three countries becomes particularly relevant when considering the economic and structural similarities between them. All three countries have leveraged the RMG industry as a tool for economic development, relying on low-cost labour and export-led growth. Each country at certain stages benefitted from favourable market access to key international markets through the MFA, the EU's EBA scheme, and the US's GSP

⁴² Nepali RMGs have a long history of exporting high fashion value added merchandise to international market mainly to European Nation, Australia, United States of America, United Kingdom, Japan & Canada besides other nations. The product categories for Nepali export include bottoms, shirts, dresses, skirts, tops and jackets made from fabrics cotton, eco friendly fabrics, rayon and manmade fibers, wool and silk. See: <https://ganasso.org.np/profile?form=MG0AV3&form=MG0AV3>

⁴³ The European Commission withdrew EBA preferences for Cambodia in February 2019 due to human right violations. See: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/cambodia_en

schemes. Despite the common reliance on low-cost labour and global trade preferences, each country's RMG sector is shaped by different political, economic, and social factors that create unique challenges.

Bangladesh and Cambodia are more comparable in terms of the scale of their industries, with both being major exporters of garments. However, Bangladesh's longer history in garment manufacturing means it faces different institutional challenges than Cambodia. For example, Bangladesh has a more developed supply chain and a greater concentration of large-scale garment factories, but this comes with more entrenched problems regarding labour rights and regulatory compliance. On the other hand, Cambodia, with its growing but still relatively young garment industry, faces challenges in improving worker conditions while attracting and retaining foreign investment. Cambodia's reliance on foreign investors, particularly Chinese companies, raises concerns about the extent to which it can maintain a sustainable, labour-friendly growth trajectory without becoming overly dependent on external forces.⁴⁴

Comparing Bangladesh to Nepal is particularly insightful in understanding how different political economies and industrial policies shape the development of the garment sector. Bangladesh's success has largely been due to its integration into global supply chains, which was facilitated by government policies that supported large-scale manufacturing. Nepal's RMG sector, on the other hand, faces difficulties in scaling up due to a lack of infrastructure, political instability, and limited international access, even though it has tried to differentiate itself with high-quality products. The comparative case of Nepal highlights the challenges faced by countries with smaller RMG sectors, where building a competitive advantage is more difficult in the absence of a large, low-cost labour force and favourable international market access like those available to Bangladesh and Cambodia.

Labour conditions across all three countries present a common challenge. Despite the differences in scale and the degree of government support, workers in all three countries face similar issues related to low wages, unsafe working environments, and limited collective bargaining power. The conditions in Bangladesh, with its large-scale factories and frequent labour unrest, reflect the more extreme end of the spectrum, but Cambodia and Nepal also struggle with worker rights, though the specific manifestations differ. For example, in Cambodia, while the government has made some progress in improving conditions, workers still face exploitation through subcontracting and poor enforcement of labour laws.⁴⁵ In Nepal, the challenge is more related to the small size of factories and the limited reach of labour reforms, where workers in the informal sector remain vulnerable.

The case for comparing Bangladesh, Nepal, and Cambodia becomes even more pertinent in light of the broader regional context of South and Southeast Asia, where RMG industries have become pivotal to national economic strategies. Each country's RMG sector serves as a model for how developing countries can harness global trade dynamics to foster economic growth

⁴⁴ See

<https://www.sciencedirect.com/science/article/pii/S0305750X23001080#:~:text=China%20is%20the%20primary%20economic,Borodyna%20and%20Nadin%2C%202022>).

⁴⁵ See <https://www.thedailystar.net/the-star/human-rights/failures-cambodia-rmg-sector-72745>

but also reveals the systemic vulnerabilities of relying on low-wage, labour-intensive industries. Analyzing the similarities and differences in the RMG sectors of Bangladesh, Nepal, and Cambodia not only provides insights into the specific challenges these countries face but also offers broader lessons for other developing nations looking to use the garment sector as an engine of growth.

Several key insights emerge from the comparison of the RMG industries in Bangladesh, Nepal, and Cambodia:

- **Role of Government Support and Policy:** Bangladesh's RMG industry has benefitted from robust government support, including favourable policies, subsidies, and infrastructural investments. In contrast, Cambodia, while benefiting from trade agreements like the EU's Everything But Arms (EBA) initiative, is more reliant on foreign investment. Nepal, on the other hand, lacks the same level of governmental focus on RMG, resulting in a smaller, niche-oriented industry. The importance of government intervention in shaping the development of the sector is evident, with Bangladesh showing that strong policy support can propel an industry to global competitiveness.
- **Labour Conditions as a Shared Challenge:** Despite their different levels of industrial development, all three countries share challenges related to labour conditions, including low wages, poor working conditions, and limited union representation. Bangladesh's industry has experienced significant labour unrest, while Cambodia faces similar challenges despite some regulatory reforms and Nepal's smaller RMG sector struggles with informal labour practices. The need for better regulatory enforcement and improving worker rights remains a critical issue for all three countries, suggesting that rapid industrialization must go hand-in-hand with labour reforms to ensure sustainable growth.
- **Differences in Scale and Sector Characteristics:** Bangladesh's RMG sector is significantly larger and more established than those of Cambodia and Nepal, providing more competitive advantages but also facing deeper, entrenched challenges such as institutional weaknesses and a complex supply chain. Cambodia, while growing rapidly, is still in the process of scaling its industry and faces risks associated with dependency on foreign investment and subcontracting practices. Nepal's smaller, niche market approach to RMG production reflects a different trajectory, with fewer economies of scale but a focus on high-value products like pashmina. These differences illustrate how the scale and focus of a country's garment industry can influence its development and the challenges it faces.
- **Global Trade Dynamics and Market Access:** Each country's RMG sector has been heavily influenced by global trade agreements. Bangladesh benefited from the MFA and later the WTO regulations, while Cambodia's growth was fueled by its access to the EU's duty-free market under the EBA initiative. Nepal, although involved in garment exports, lacks the same trade advantages and thus faces more limited market access, making its RMG sector smaller and more dependent on niche markets. This highlights the significant impact of global trade dynamics on the success and sustainability of the garment industry in developing nations.
- **Political Economy and Informal Networks:** The comparison reveals that informal networks and political arrangements, such as rent-sharing among elites and the role

of influential associations like BGMEA in Bangladesh, play a crucial role in the RMG industry. These informal institutions can help navigate regulatory weaknesses and secure industry privileges, but they also contribute to inefficiencies and inequality in labour practices. Cambodia and Nepal also have political settlements that shape their industries, but the lack of large, powerful associations like BGMEA in Nepal and Cambodia limits the collective power of the sector in those countries.

- **Environmental and Social Spillovers:** The RMG sector, while providing substantial economic benefits, also generates environmental and social spillovers, especially in areas like waste management (e.g., fabric scraps or “jhut”) and informal labour practices. Cambodia and Bangladesh experience local conflicts and unrest related to these issues, while Nepal’s smaller industry has its own environmental challenges linked to smaller-scale, artisanal production.⁴⁶ These externalities underscore the broader social and environmental impacts of an industry that is often driven by short-term economic incentives rather than long-term sustainability considerations.

⁴⁶ See Raihan (2024) and <https://closedloopfashion.com/project/textile-waste-improvement-programme-for-circularity-in-cambodia/>

5. The Employment Injury Insurance Pilot Programme in Bangladesh

5.1. The Origin and the Current Status of the Programme

The EIS Pilot Programme in Bangladesh represents a significant step toward improving workers' protection in the country, particularly in sectors such as the RMG industry, which is one of the largest contributors to Bangladesh's economy. The programme, aimed at providing financial security and support to workers who suffer injuries while at work, is part of broader efforts to address labour welfare concerns, especially in industries with high occupational risks and vulnerabilities.

5.1.1. Background and Context⁴⁷

Bangladesh, with its rapidly growing industrial sectors like the RMG industry, faces substantial challenges related to labour rights and worker welfare. Many workers, particularly in sectors like textiles and construction, face high risks of injury due to inadequate workplace safety measures, poor enforcement of labour laws, and the absence of sufficient social safety nets. Historically, there has been little formal protection for workers who suffer from work-related injuries, leading to a lack of financial support during recovery periods and limited compensation for workers who are permanently disabled or even killed due to workplace accidents.

The need for a structured insurance scheme for injured workers became even more apparent after a series of high-profile industrial accidents, such as the 2013 Rana Plaza collapse, which underscored the vulnerabilities faced by workers in unsafe working conditions. These incidents, coupled with mounting pressures from labour rights groups and international bodies, pushed the government and employers to consider more robust mechanisms to safeguard workers.

5.1.2. The EIS Pilot Programme⁴⁸

On 18 February 2021, the Government of Bangladesh established a tripartite committee tasked to pilot an employment injury insurance scheme in Bangladesh. A committee's working group met at the end of 2021 to discuss the details and main elements of the Pilot, which were finally endorsed by national stakeholders in early 2022. The programme aimed to test the viability of providing workers with compensation for injuries sustained in the workplace, as well as to set the groundwork for a more comprehensive social protection system for workers.

A mixed approach, guided by ILO standards and best practices, is proposed as a starting point for the EIS Pilot as presented in the ILO Technical Recommendations⁴⁹. It recommends a more limited set of benefits initially aligned with national delivery capacity and progressing

⁴⁷ See https://eis-pilot-bd.org/assets/documents/Annexes_Pledge_EIS-Pilot.pdf

⁴⁸ See https://eis-pilot-bd.org/assets/documents/Annexes_Pledge_EIS-Pilot.pdf

⁴⁹ https://www.ilo.org/global/topics/geip/projects/bangladesh/WCMS_673368/lang--en/index.htm

towards the ultimate benefits. Selected benefits will continue to be paid under the current employer-liability regime.⁵⁰ There are some advantages to be gained from this approach towards EIS, viz.: a gathering of essential information to fine-tune actuarial estimates; strengthening of capacities for the delivery of certain complex benefits and administration of the scheme; demonstration of the scheme's sustainability and resulting in lower costs to enterprises; and providing the time necessary to ensure that a sustainable transformation can occur.

Box 1: A Snapshot of the Employment Injury Scheme (EIS) Pilot Programme in Bangladesh

The EIS Pilot Programme in Bangladesh is a landmark initiative aimed at ensuring social protection for workers in the RMG sector, which employs over 4 million people. Launched in collaboration with the ILO, the Government of Bangladesh, and industry stakeholders, the EIS programme provides income support to workers in the event of occupational injuries or work-related death cases.

The pilot programme has demonstrated the feasibility of scaling up such a scheme nationally. Initial results indicate enhanced worker confidence in workplace safety mechanisms and improved employer-employee relations. However, challenges such as ensuring compliance with accident reporting by factories remain critical areas for attention.

The EIS programme represents a significant step towards aligning Bangladesh's social protection framework with international labour standards. If successfully scaled, it could serve as a model for other countries in the Global South seeking to balance economic growth with social equity.

Source: https://eis-pilot-bd.org/assets/documents/Annexes_Pledge_EIS-Pilot.pdf

The Pilot is grounded on the following vision:

- An efficient no-fault and risk-sharing EIS based on the principles and standards of relevant international labour standards (particularly C. 121 and R. 202) lowers production costs and enables harmonious work relations.
- Employers are responsible for providing protection (compensation and medical care) when an employment-related injury occurs.
- A temporary nature but a clear legal basis and the use of existing administrative structures to the extent possible with the view to scaling them up.
- A level of benefits that complies with international standards.
- The Pilot requires a firm national commitment towards taking over the total amount of recurrent benefit expenditures and administration costs after a maximum of 5 years through contributions based on wages at the enterprise level.
- Employers are entirely part of the implementation of the EIS.
- Time is of the essence.

⁵⁰ This is in line with [Recommendation 202](#) on national social protection floors, which insists on recognizing national capacities and the gradual progress in line with capacities, as long as the political backing is there.

5.1.3. Key Objectives⁵¹

The general objectives of the pilot are to:

- Ensure the payment of benefits for the contingencies' duration and contribute to safeguarding decent living conditions for the victims and their families.
- Provide the amount of benefits in line with international standards.
- Aim at protecting employers from costly lawsuits in case of severe industrial accidents that can affect the industry's reputation as a whole.
- Provide financial and institutional transparency.
- Provide adequate time for the implementation of a full-fledged wage-based EIS in Bangladesh.

The specific objectives of the pilot are to:

- Strengthen and increase the capacity to deliver benefits for temporary incapacity.
- Demonstrate, based on reliable evidence, the viability, feasibility and cost efficiency of an EIS in Bangladesh.
- Gather better and more reliable data to calibrate the costs of the EIS.
- Ensure affordability of employers' contributions by testing the impact of a sharing of responsibility approach.
- Provide better delivery of occupational medical services within the current normative framework.

The expected outcomes of the pilot are:

- A legal framework in line with ILS.
- A technical solution for a wage-based contributory mechanism to be used by employers.
- A transparent, accountable and sound governance of the EIS.
 - An administrative operational structure is in place and is able to collect contributions and deliver benefits to victims of work injuries.
 - Reliable and solid data to build efficient administration and propose a sound review of a normative and regulatory framework.
 - A management information system (MIS) is in place.
 - Targeted occupational, safety and health (OSH) plans based on the scheme's experience.
 - Tailor-made calibration of the contributions and costs based on real experience and reliable data.
 - Access to an efficient complaint and appeal mechanism.
 - Recommendations to improve compensation and other service practices for RMG in line with ILO C. 121 and as committed in the National Tripartite Plan of Action (NTPA).
 - Lessons and recommendations for the scaling up of EIS.

⁵¹ See https://eis-pilot-bd.org/assets/documents/Annexes_Pledge_EIS-Pilot.pdf

*5.1.4. Programme Design and Implementation*⁵²

The Pilot is composed of two components. Its first component refers to the data gathering and the strengthening of capacities for the delivery of some services and benefits in relation to short-term loss of earnings. Its second component proposes to test a risk-sharing approach across all enterprises in the RMG industry for permanent loss of earnings due to work-related injury.

More specifically, the Pilot covers the following:

- Carry out further discussions and research on the average medical care costs for a worker if an injury occurs. This would help identify the resources necessary to ensure that the obligation to provide medical care found in the Bangladesh Labour Act (BLA) is effectively met. The research would extend to the process adhered to and the benefits provided in case of temporary incapacity (data gathering and capacity-building component);
- Testing of a risk-pooling approach for permanent disability and survivors' benefits, with an EIS. The Pilot would thus contribute to a better understanding of how the system should work to ensure that workers are compensated adequately and expeditiously regardless of the accident's magnitude. (risk-sharing component for long-term benefits).

The two components mentioned above would need to run hand-in-hand so that the experience gained can be used reciprocally. The Pilot supports the development of skills and all stakeholders' experience to respond effectively to injury at work.

The institutional oversight of the Pilot comes under a Tripartite EIS Pilot's Committee. A fund and an implementing (operational) agency are required for the implementation of the Pilot. The fund is the shell in which funding for the Pilot is deposited. The implementing agency runs the delivery of the benefits and services with the necessary support of international partners. It is responsible for delivering long-term benefits to permanently disabled workers or deceased worker's eligible survivors. It is involved in operations related to the registration of workers and employers, the processing of claims and the payment of cash benefits to the beneficiaries and is linked to health care providers and physical and vocational rehabilitation services. It is also responsible for gathering and getting access to data on the delivery of short-term benefits directly ensured by employers under the current system to fine-tune the understanding and assessment of the current system of benefit delivery to injured workers and propose remedy measures if necessary. The implementing agency should have a specific tripartite structure to manage the funds of the Pilot (the governance of which is guided by ISSA guidelines on good governance). Both the fund and the implementing agency could be hosted in the same institution.

The Pilot is anchored in the domestic framework and uses existing structures. The Pilot could use the provisions of the Bangladesh Labour Act, SRO 291-Law/2015, more particularly its provisions 212 to 236 on the Central Fund. The use of the Central Fund's pre-existing

⁵² See https://eis-pilot-bd.org/assets/documents/Annexes_Pledge_EIS-Pilot.pdf

structure limits the need to make institutional and normative changes and undoubtedly places the Pilot within the domestic framework relevant to the RMG sector. This option allows for establishing an ad-hoc administrative structure within the Central Fund (sub-account) where the resources would only be used for the sole purpose of the Pilot. If this option is privileged, the staff trained could be integrated into the Central Fund or Governmental system at a later stage, thus maximizing capacity building at the national level.

The costs of EIS services and benefits related to temporary incapacity and rehabilitation would continue to be regulated by the current system (employers' liability) and disbursed at the factory level. These benefits are not taken into consideration for the cost of the Pilot. Under the Pilot, compensation for permanent disability and death would still be payable by the Central Fund (or other similar entity) under the same conditions as per the legal framework. The Central Fund (or other similar entity) would continue to act as the first payer for long-term benefits. A top-up pension would then be payable by the Pilot's fund to the beneficiaries to ensure that the value of all long-term employment injury benefits payable is equivalent to the actuarial value of benefits payable under Convention No 121.⁵³

The total cost of benefits payable to victims of workplace accidents for permanent disability and death benefits is projected at 0.15%⁵⁴ of the wages of the workers:

- 0.10% is the cost of permanent disability benefits (total and partial disability, care and assistance)
- 0.05% is for death benefits
- Based on assumptions of actuarial valuation⁵⁵ and assumptions of this Pilot (4,000,000 covered workers with an average wage of 125 USD per month), the annual cost of benefits is estimated at USD 8,990,000.

To assess the cost of the Pilot, it is necessary to calculate how much of the 0.03% levy on all RMG export orders is effectively used for long-term related injury benefits. Currently:

- The Central Fund consists of two distinctive accounts receiving an equal share of the 0.03 levy on export orders, the beneficiary account and the contingency account. Only the beneficiary account is used for paying employment-injury compensation.
- Assuming that 2,500,000 workers are covered by the Central Fund while 1,500,000 other workers are covered by the Group Insurance.
- Knowing that in the light of actuarial valuation, the Central Fund is called to pay USD3,500 for death and total disability respectively and USD1,200 in case of the loss of a limb that does not prevent the victim from working.⁵⁶

⁵³ The actuarial value of the top-up pension provided under the Pilot will be at least equivalent to the benefit paid under the employers' liability for long-term benefits.

⁵⁴ Based on comparable experience from neighbouring countries in the RMG sector. This experience does not take into account catastrophic events similar to Rana Plaza. However, it can be assumed that free reserves that may emerge as part of the EIS's lifecycle may provide compensation to victims of catastrophic events.

⁵⁵ https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_673690.pdf

⁵⁶ The value of the benefits paid by the Central Fund is determined by using the same assumptions as per the [actuarial valuation assumptions](#). This leads to an estimation of 110 workers entitled to permanent disability benefits, 1,193 workers are entitled to partial disability benefits and 110 workers who die following a workplace accident. It is assumed that permanently disabled workers will receive the total disability compensation from the Central Fund and that partially disabled workers will receive the loss of limb compensation from the Central Fund.

- Knowing that the workers not covered by the Central Fund (or other similar entity) are called to pay USD2,400 for death and total disability respectively.⁵⁷
- It could be estimated that the Central Fund disburses approximately USD 2,518,000 per year for long-term employment injury benefits.
- The Pilot cost would then be the difference between the total cost of long-term injury benefits and what is currently paid by the Central Fund (or other similar entity) for that purpose.
- This approach leaves the Central Fund's processes and funds unchanged and makes it a Pilot's partner. Furthermore, it helps in mainstreaming the relevant processes.

When taking into consideration the funding gap between the required amount to cover permanent disability and death benefits as per Convention No 121 (USD 8,990,000) and the value of the benefits to be paid by the Central Fund (and Group Insurance) (USD 2,518,000), the voluntary contribution required to cover the benefit-cost of the Pilot is USD 6,472,000 per year.

Local administrative costs are projected at 0.02% of workers' wages:

- Assumes the recruitment of local staff to administer the EIS institution.
- Some costs are fixed and cannot be reduced regardless of the number of benefits covered (i.e. management of the institution, auditing fees, etc.).
- The more benefits are covered, and the more experienced the scheme is, the more likely administrative costs would be reduced.
- All other assumptions are identical to the actuarial valuation.
- Based on the above, the annual cost of the EIS institution is estimated at USD 900,000.

Based on the above, the voluntary contribution to cover the Pilot's cost would be estimated at USD 7,372,000 per year. That represents 0.13% of wages.

The financing of the Pilot will need to be kept in a separate fund at the national level (account). The Pilot's financing can be channelled via the Central Fund or any other similar structure. Indeed, the BLA, and notably Section 214, authorizes the Central Fund to collect any voluntary contribution coming from the buyers or a work-order issuing establishment to finance benefits related to work accidents (S. 214(1)(b)). Before the funds reach Bangladesh, it is proposed that they transit through the ILO to ensure, amongst other things, the confidentiality of sources.

5.1.5. Challenges and Issues

Despite the potential benefits, the pilot programme faces several challenges that must be addressed to ensure its success and expansion:

- **Awareness and Participation:** One of the main challenges is ensuring that both workers and employers understand the programme and actively participate. Many

⁵⁷ The value of the benefits paid by the Group Insurance is determined by using the same assumptions as per the [actuarial valuation assumptions](#). This leads to an estimation of 66 workers that are entitled to permanent disability benefits and 66 workers that die following a workplace accident.

workers may be unaware of their rights to compensation, the pilot and EII in general are financed fully by employer/brands contributions and do not rely on worker contributions. . Similarly, some employers may resist the scheme, viewing it as an additional cost or burden on their business.

- **Weak Enforcement and Compliance:** Bangladesh faces challenges with enforcement and compliance, and this is a critical issue for the success of the Employment Injury Insurance scheme. There may be issues with employers evading their obligations, or workers being reluctant to report injuries due to fear of losing their jobs. Strengthening regulatory enforcement and ensuring compliance with the scheme are crucial to its long-term success.
- **Sustainability:** While the programme is designed to be financially self-sustaining, the challenge lies in making sure that it remains viable in the long term. The future sustainability of the scheme beyond the pilot phase will depend on the level of contributions from the employers and the adequacy of the compensation provided to injured workers.
- **Expansion to Informal Sector:** A major challenge lies in extending the programme beyond the formal sector to cover workers in the informal economy, where a significant portion of the workforce remains unprotected by social security systems. Developing mechanisms to include informal workers in the programme, possibly through voluntary contributions or other means, will be crucial for making the programme more inclusive.

5.2. Social Insurance Schemes in Other Countries

5.2.1. Cambodia

The social insurance programmes in Cambodia have evolved significantly over the years, driven by the country's efforts to address the needs of its rapidly growing labour force, particularly in the garment and construction sectors. Social insurance in Cambodia is seen as a critical component of the country's social protection system, addressing worker welfare, enhancing economic resilience, and ensuring compliance with global labour standards. A comprehensive analysis of Cambodia's social insurance programmes involves examining their origin, evolution, structure, stakeholders, and challenges.

Cambodia's social insurance system has its roots in the country's post-conflict recovery and economic liberalization efforts. After decades of turmoil, including the Khmer Rouge era and subsequent instability, Cambodia embarked on rebuilding its economy in the 1990s. With the garment industry becoming the cornerstone of economic growth and employment, there was a growing recognition of the need to protect workers from vulnerabilities associated with industrial labour.

The establishment of social insurance programmes began in earnest in the 2000s, largely influenced by international development partners such as the ILO, the World Bank, and bilateral donors. These efforts were also shaped by Cambodia's desire to meet global labour standards to maintain preferential trade agreements and attract foreign investment.

Box 2: A Snapshot of the National Social Security Fund (NSSF) in Cambodia

The National Social Security Fund (NSSF) of Cambodia is a pivotal institution designed to provide social protection for workers and their families across various sectors. Established in 2007 under the Law on Social Security Schemes, the NSSF has gradually expanded its coverage, demonstrating Cambodia's commitment to enhancing social protection in alignment with its economic growth trajectory. Core programmes of the NSSF include Employment Injury Insurance (EII), Health Insurance Scheme, Pension Scheme.

Despite its progress, the NSSF faces hurdles such as limited enforcement of compliance in the informal economy, financial sustainability of the schemes, and ensuring comprehensive coverage for all workers. Strengthening institutional capacity and raising awareness among employers and workers remain critical to its success.

The NSSF is a significant example of how emerging economies can build inclusive social security systems. Its evolution offers valuable lessons for other nations striving to balance labour market dynamics with social protection imperatives.

Source: National Social Security Fund (NSSF) of Cambodia: <https://www.nssf.gov.kh/language/en/>

Cambodia's social insurance programmes are primarily managed by the **National Social Security Fund (NSSF)**, which was established in 2007 under the Ministry of Labour and Vocational Training. The NSSF operates several key schemes:⁵⁸

- **Health Insurance Scheme:**
 - Introduced in 2016, the health insurance scheme provides access to medical care for formal sector workers and their dependents.
 - It covers outpatient consultations, hospitalization, maternity care, and workplace injuries.
 - Contributions are typically made by employers, with employees receiving benefits without direct contributions.
- **Employment Injury Insurance (EII):**
 - This was the first social insurance programme established under the NSSF in 2008.
 - It provides compensation for workplace injuries, occupational diseases, and fatalities.
 - Benefits include medical care, rehabilitation, and financial compensation for workers or their families.
- **Pension Scheme:**
 - Cambodia launched its national pension scheme in 2022, aiming to provide financial security for retirees in the formal sector.
 - It operates on a contributory basis, with both employers and employees contributing a percentage of wages.
 - The programme is still in its early stages, and coverage is limited primarily to formal sector workers.

⁵⁸ See National Social Security Fund (NSSF) of Cambodia: <https://www.nssf.gov.kh/language/en/>

- **Unemployment Insurance (Planned):**
 - Discussions are ongoing about introducing an unemployment insurance scheme to support workers during economic downturns or job transitions.
 - Such a programme is critical for industries like garments, which are vulnerable to global market fluctuations.

The development and implementation of social insurance programmes in Cambodia reflect broader political economy dynamics. Cambodia's reliance on the garment and construction industries for economic growth has shaped its social insurance priorities (ADB, 2014). Programmes often aim to stabilize the workforce and address labour unrest, which can disrupt production and tarnish the country's image as a manufacturing hub (ILO, 2024). The implementation of social insurance programmes is also influenced by Cambodia's political elite and their relationships with business owners. The balance between protecting workers and minimizing costs for businesses often reflects the power dynamics between these groups.⁵⁹

The Cambodian government, through the Ministry of Labour and Vocational Training, plays a central role in the design, regulation, and oversight of social insurance programmes. They are responsible for formulating policies that align with international labour standards, managing the NSSF which handles the collection of contributions and disbursement of benefits, and ensuring employer compliance with these policies. However, enforcement of compliance remains inconsistent.⁶⁰

Employers in Cambodia are key contributors to social insurance schemes. Their roles include financial contributions, as businesses fund a significant portion of programmes like employment injury and health insurance. Compliance with labour standards is essential, requiring businesses to register workers with the NSSF and adhere to social insurance regulations.⁶¹ However, businesses often balance the costs of compliance with the need to remain competitive, particularly in the garment sector where profit margins can be thin. While many businesses recognize the benefits of social insurance, some resist full compliance due to these cost concerns.⁶²

Trade unions in Cambodia have been vocal advocates for worker rights and social protection. Their roles include advocacy and awareness, where they lobby for expanded social insurance coverage and improved benefits, often in collaboration with international organizations. They also monitor compliance by playing a role in overseeing employer adherence to social insurance laws and reporting violations. Additionally, in collective bargaining processes, unions push for better implementation and greater accessibility of social insurance programmes.⁶³

⁵⁹ <https://bti-project.org/en/reports/country-report/KHM>

⁶⁰ See OECD (2017)

⁶¹ See <https://www.social-protection.org/gimi/gess/ShowProjectWiki.action?wiki.wikiId=895>

⁶² See ILO (2023)

⁶³ See <https://lup.lub.lu.se/luur/download?func=downloadFile&recordId=8912909&fileId=8912916>

Despite significant progress, Cambodia's social insurance programmes face multiple challenges:⁶⁴

- **Limited Coverage:**
 - Coverage is concentrated in the formal sector, excluding a large portion of the workforce employed informally, particularly in rural areas.
 - Migrant workers, who contribute significantly to the economy, often lack access to social insurance benefits.
- **Low Awareness and Accessibility:**
 - Many workers are unaware of their entitlements under social insurance schemes.
 - Administrative inefficiencies and complex procedures deter workers from claiming benefits.
- **Financial Sustainability:**
 - The contributory nature of the pension scheme raises concerns about its sustainability, particularly as the formal sector workforce remains small compared to the informal sector.
 - Employers, particularly small and medium enterprises (SMEs), often struggle to meet contribution requirements.
- **Weak Enforcement:**
 - Non-compliance by employers is widespread, partly due to inadequate monitoring and weak penalties for violations.
 - Corruption and bureaucratic inefficiencies further undermine enforcement efforts.
- **Fragmented Implementation:**
 - Coordination between government agencies, employers, and trade unions is often lacking, leading to gaps in coverage and delays in benefit delivery.
- **Gender Inequalities:**
 - Female workers, who dominate sectors like garments, face additional challenges in accessing maternity benefits and other gender-specific protections.

Cambodia's social insurance programmes represent a critical step toward achieving social and economic stability, particularly for the country's growing workforce. While the NSSF has made significant progress in extending coverage and benefits, challenges remain in ensuring inclusivity, sustainability, and effective implementation. Addressing these issues requires stronger government oversight, increased employer compliance, and greater collaboration with trade unions and international partners. A well-functioning social insurance system not only enhances worker welfare but also strengthens Cambodia's position as a competitive and ethical global manufacturing hub.

5.2.2. Nepal

Social insurance programmes in Nepal have been gradually evolving as the country strives to build a comprehensive social protection framework to support its diverse and growing

⁶⁴ See OECD (2017), PIC (2019), World Bank (2018), ILO (2024).

workforce. These programmes aim to address vulnerabilities associated with economic transitions, urbanization, and the migration of labour, particularly to foreign markets. Nepal's efforts in developing social insurance programmes reflect its socioeconomic priorities and the challenges of balancing inclusivity, sustainability, and economic competitiveness.

Nepal's journey toward establishing social insurance began in the late 20th century with modest efforts to provide social security for civil servants and military personnel. Over time, these efforts expanded to include workers in the formal private sector and, more recently, migrant workers. The country's transition from a monarchy to a federal democratic republic in 2008 provided a political impetus for institutionalising social protection as a constitutional right.

Box 3: A Snapshot of the Social Security Fund (SSF) in Nepal

The Social Security Fund (SSF) of Nepal is a cornerstone initiative to institutionalize social protection and improve the welfare of workers across formal sectors. Established in 2011 under the Contribution-based Social Security Act, the SSF represents a significant step towards building a comprehensive social safety net in Nepal. Core schemes of the SSF include Medical, Health, and Maternity Protection, Accident and Disability Protection, Old-Age Pension Scheme, Dependent Family Protection, and Unemployment Protection.

Despite its potential, the SSF faces challenges such as low compliance among employers, limited coverage of informal workers, and financial sustainability of its schemes. Strengthening enforcement mechanisms and expanding coverage to the informal economy are crucial steps for its long-term success.

The SSF is a landmark in Nepal's journey toward inclusive social protection. Its experiences and lessons hold relevance for other developing countries aspiring to establish robust social security systems.

Source: ILO (2021)

The **Social Security Fund (SSF)**, under the Social Security Act of 2017, marked a significant milestone in Nepal's social insurance landscape. Its creation was driven by the need to modernise the social protection system and align it with international labour standards. The SSF represents Nepal's most comprehensive initiative to date, covering formal sector workers and offering multiple schemes aimed at addressing various risks. Nepal's social insurance system, primarily managed by the SSF, encompasses several programmes aimed at providing protection against income insecurity, health risks, and occupational hazards. Key programmes include:⁶⁵

- **Health and Maternity Protection Scheme:**
 - This scheme provides medical benefits, including hospitalisation, outpatient care, and maternity leave benefits.

⁶⁵ See ILO (2021)

- It aims to ensure access to healthcare services for workers and their dependents, reducing the financial burden of medical expenses.
- **Accident and Disability Protection Scheme:**
 - Introduced to address workplace injuries and occupational diseases, this scheme offers financial compensation, medical treatment, and rehabilitation support.
 - It also provides disability benefits for workers who are permanently or temporarily incapacitated due to workplace accidents.
- **Unemployment Protection Scheme:**
 - This programme provides income support to workers who lose their jobs due to layoffs or economic downturns.
 - It aims to reduce the economic impact of job loss and help workers transition to new employment.
- **Pension and Old-Age Benefits Scheme:**
 - The pension scheme ensures financial security for workers in their retirement years, with contributions made by both employers and employees.
 - This programme is critical given Nepal's ageing population and the lack of traditional family-based support systems in urban areas.
- **Dependent Family Protection Scheme:**
 - This scheme provides financial support to the families of workers in the event of their untimely death.
 - It ensures that dependents are not left destitute following the loss of a breadwinner.
- **Programmes for Migrant Workers:**
 - Given the significant number of Nepali workers employed abroad, the government has initiated efforts to extend social protection to this group, including health insurance and repatriation assistance.
 - These programmes are crucial, as migrant workers contribute significantly to Nepal's economy through remittances.

The development and implementation of social insurance in Nepal are shaped by several political economy factors. Nepal's economy is characterized by a large informal sector, which poses challenges to the coverage and sustainability of social insurance programmes. The dominance of agriculture and reliance on remittances from migrant workers further complicate the effective implementation of social insurance. The shift to a federal system has introduced complexities in policy implementation and coordination among local, provincial, and federal governments. Resource constraints at the subnational level often hinder the delivery of social insurance benefits. Nepal's commitment to international labour standards, driven by its aspirations to maintain favourable trade terms and attract foreign investment, has influenced the design of social insurance programmes. Development partners, including the ILO, have played a significant role in providing technical and financial support. Frequent changes in government and policy priorities have disrupted the continuity of social insurance reforms. The politicization of social protection programmes sometimes undermines their effectiveness and inclusivity.⁶⁶

⁶⁶ See Pradhan et al (2021)

The Nepalese government plays a pivotal role in the design, regulation, and administration of social insurance programmes. The government formulates policies and enacts legislation to expand and regulate these programmes. The Social Security Fund (SSF) is the primary institution responsible for collecting contributions and disbursing benefits. The state ensures compliance by employers and workers, though enforcement remains a challenge due to limited resources and capacity. Additionally, the government provides financial support to extend coverage to vulnerable populations, particularly informal sector workers and low-income families.⁶⁷

Employers in Nepal play a crucial role in financing social insurance programmes. Their responsibilities include contributing a percentage of workers' wages to the Social Security Fund (SSF), registering employees with the SSF, and ensuring adherence to social insurance regulations. Additionally, businesses engage in advocacy and negotiation with the government to balance the costs and benefits of these programmes, particularly in industries like manufacturing and tourism.⁶⁸

Trade unions in Nepal have been instrumental in advocating for worker rights and social protection. They play significant roles such as conducting awareness campaigns to educate workers about their rights and entitlements under social insurance programmes, negotiating with employers and the government to improve the scope and benefits of social insurance schemes, and monitoring employer compliance while reporting violations, particularly in industries prone to labour exploitation.⁶⁹

Despite notable progress, Nepal's social insurance system faces several challenges:

- **Limited Coverage:**
 - A large portion of the workforce remains outside the formal sector, excluding them from social insurance benefits.
 - Extending coverage to informal and self-employed workers is a significant challenge.
- **Awareness and Accessibility:**
 - Many workers, particularly in rural areas, are unaware of their entitlements or face difficulties accessing benefits due to bureaucratic hurdles.
 - Complex application procedures deter workers from enrolling in or claiming benefits.
- **Financial Sustainability:**
 - Ensuring the sustainability of contributory schemes is challenging, particularly given Nepal's low wage levels and the small size of the formal sector workforce.
 - Dependence on government subsidies raises concerns about long-term viability.

⁶⁷ See ILO (2024)

⁶⁸ See ILO (2024)

⁶⁹ See <https://www.ulandssekretariatet.dk/wp-content/uploads/2024/03/Mapping-of-the-role-of-trade-unions-on-social-protection-schemes-2023-1.pdf>

- **Weak Enforcement:**
 - Non-compliance by employers is widespread, especially among small and medium enterprises (SMEs).
 - Limited resources and capacity for monitoring and enforcement exacerbate the problem.
- **Administrative Inefficiencies:**
 - The SSF faces challenges in streamlining its operations, leading to delays in benefit disbursement and gaps in service delivery.
 - Coordination among government agencies and stakeholders is often lacking.
- **Impact of Migration:**
 - While migrant workers are a significant economic force, extending social insurance coverage to them is complex due to their transient nature and the diverse legal frameworks of destination countries.

Nepal's social insurance programmes represent a critical step toward achieving social and economic equity, enhancing worker welfare, and fostering sustainable development. While the Social Security Fund has laid a strong foundation, challenges related to coverage, enforcement, and financial sustainability must be addressed to realize the full potential of these programmes. Strengthening institutional capacity, raising awareness, and fostering collaboration among stakeholders, including the state, businesses, and trade unions, will be essential for building a robust and inclusive social insurance system in Nepal.

6. Why is Social Insurance Important in the Export-oriented RMG Sector in Bangladesh?

6.1. Normative Observations: Equity, Inclusive Development, and More

Social insurance plays a pivotal role in transforming the export-oriented RMG sector in Bangladesh, addressing the intertwined challenges of equity, worker welfare, and sustainable development. The RMG sector has propelled Bangladesh to become a key player in the global apparel market, but its continued growth and global competitiveness depend on safeguarding the rights, health, and security of the millions of workers driving this success. An expanded discussion highlights why social insurance is indispensable for the RMG sector, elaborating on its profound implications for socioeconomic equity, enhanced labour welfare, and the long-term sustainability of the industry.

6.1.1. Equity in the RMG Sector: Bridging Structural Gaps

The RMG sector reflects deep structural inequalities, particularly regarding wages, gender-based disparities, and job security. Social insurance can mitigate these inequities by ensuring that all workers, regardless of gender, employment status, or income level, have access to essential protections.

- **Addressing Wage Inequality:** Women constitute a significant portion of the workforce but often earn lower wages compared to their male counterparts.⁷⁰ Social insurance schemes that provide universal benefits can help mitigate these disparities by offering equal access to health coverage, maternity benefits, and pensions. This ensures that female workers receive the same level of financial and healthcare support as their male colleagues, promoting gender equity in the workplace.
- **Protection for Vulnerable Workers:** Many workers in the RMG sector, particularly contractual and temporary workers, lack access to formal protections.⁷¹ Social insurance can provide these workers with a safety net, helping to reduce the vulnerability of low-income households to economic shocks. By extending coverage to all workers, irrespective of their employment status, social insurance can create a more resilient workforce.
- **Gender Parity and Maternity Protections:** Women comprise over 60% of the RMG workforce in Bangladesh, yet they face systemic disadvantages, including lower wages and limited access to maternity benefits. Social insurance that includes maternity leave, childcare support, and healthcare for female workers ensures a more inclusive and equitable workplace, enabling women to balance work and family responsibilities without fear of losing income. This not only benefits individual workers but also enhances overall productivity and employee retention in the sector.
- **Income Redistribution Mechanisms:** Social insurance pools risks and redistributes resources, providing financial security for low-income workers. This reduces income

⁷⁰ Bangladesh's RMG factories have a gender pay gap of up to 30% in favour of men for base wages. See: <https://www.dhakatribune.com/business/342578/30%25-gender-pay-gap-in-bangladesh-rmg-factories>

⁷¹ 92% RMG workers without formal contracts. See: <https://www.dhakatribune.com/business/342269/92%25-rmg-workers-without-formal-contracts>

inequality within the sector by creating a safety net for vulnerable workers who are disproportionately affected by health crises, injuries, and old-age poverty. By offering support during times of need, social insurance can prevent workers from falling into deeper economic hardship.

- **Inclusive Coverage for Informal Workers:** Many RMG workers are employed informally, without legal contracts or access to workplace benefits. Expanding social insurance to cover informal workers can reduce exclusion and empower previously marginalized groups within the sector. This inclusion ensures that all workers, regardless of their formal employment status, have access to essential protections and support systems.
- **Creating a Culture of Equity:** Beyond the tangible benefits, social insurance fosters a culture of equity and fairness in the workplace. By guaranteeing that all workers have access to necessary protections, employers demonstrate their commitment to worker welfare, which can lead to increased morale and loyalty among employees. This, in turn, can translate into higher productivity and a more positive work environment.
- **Legal and Policy Reforms:** Implementing effective social insurance schemes often requires significant legal and policy reforms. Governments must create and enforce regulations that mandate employer contributions to social insurance funds, ensure compliance, and protect workers' rights. These reforms are essential for building a robust social insurance system that can address the diverse needs of the RMG workforce.
- **Collaboration and Stakeholder Engagement:** Successful social insurance programmes rely on the collaboration of various stakeholders, including government agencies, employers, labour unions, and civil society organizations. Engaging these stakeholders in the design and implementation of social insurance schemes can ensure that the programmes are comprehensive, inclusive, and responsive to the needs of all workers.
- **Monitoring and Evaluation:** Continuous monitoring and evaluation of social insurance programmes are critical for identifying gaps, assessing impact, and making necessary adjustments. Governments and organizations must invest in data collection and analysis to track participation rates, benefit utilization, and overall programme effectiveness. This information can guide future policy decisions and help improve the social insurance system over time.

Overall, equity in the RMG sector can be significantly improved through comprehensive social insurance schemes that address wage disparities, provide protections for vulnerable workers, ensure gender parity, and include informal workers. By implementing these measures, the sector can foster a more just and equitable environment for all its employees, contributing to the long-term sustainability and success of the industry.

6.1.2. Worker Welfare: Protecting Lives and Livelihoods

Enhancing worker welfare is essential for improving productivity, reducing turnover, and fostering a more committed workforce. Social insurance addresses multiple dimensions of worker welfare, creating a more humane and efficient work environment.

- **Protection Against Employment Injuries:** Workplace accidents are a persistent issue in Bangladesh's RMG factories. From minor injuries to large-scale disasters like the Rana Plaza collapse, these incidents underscore the urgent need for an employment injury insurance scheme. Such a scheme would provide timely compensation, medical care, and rehabilitation support, ensuring that workers do not face financial ruin due to workplace hazards. This not only assists the affected workers but also reassures the entire workforce that their well-being is a priority, fostering a safer and more motivated work environment.
- **Health Security and Well-being:** Workers in the RMG sector are exposed to harsh working conditions, including long hours, poor ventilation, and ergonomic challenges that lead to chronic health issues.⁷² Access to social health insurance ensures timely medical interventions, reducing absenteeism and long-term health complications. Regular health check-ups, access to necessary medications, and preventive care can significantly improve workers' overall health, leading to a more productive and present workforce. Additionally, health education programmes can be integrated into the insurance schemes to promote healthy practices and awareness among workers.
- **Financial Security During Economic Shocks:** RMG workers are highly vulnerable to economic disruptions such as pandemics, factory closures, or reduced global demand.⁷³ Social insurance programmes offering unemployment benefits or income support during such periods help workers maintain financial stability, protecting their families from falling into poverty. These programmes can include provisions for retraining and upskilling, enabling workers to adapt to changing market demands and secure new employment opportunities. By providing a financial safety net, social insurance helps stabilize the workforce and the broader economy during times of crisis.
- **Old-Age Security:** Most workers in the sector lack savings or pensions, leaving them vulnerable in old age.⁷⁴ Social insurance schemes that include retirement benefits can ensure a dignified life for workers after they exit the labour force. Pension plans, savings schemes, and retirement funds can provide regular income to retired workers, allowing them to live with dignity and security. Furthermore, these programmes can be designed to be portable, so that workers can retain their benefits even if they change employers or move within the industry.

Ensuring comprehensive worker welfare through social insurance is not just a moral imperative but also an economic necessity. By protecting the lives and livelihoods of workers, the RMG sector can build a resilient and motivated workforce, contributing to the long-term sustainability and success of the industry.

⁷² See: Well-being of the RMG Workers in Bangladesh: Some Key Issues. <https://workerdiaries.org/well-being-of-the-rmg-workers-in-bangladesh-some-key-issues/>

⁷³ See: Towards a Sustainable Growth of the RMG Sector of Bangladesh. <https://workerdiaries.org/towards-a-sustainable-growth-of-the-rmg-sector-of-bangladesh/>

⁷⁴ See: Navigating Challenges and Fostering Well-being for Women in Bangladesh's RMG Sector. <https://lightcastlepartners.com/insights/2024/02/fostering-wellbeing-for-women-in-rmg/>

6.1.3. Sustainable Development: Building a Resilient RMG Sector

Sustainability in the RMG sector requires addressing not only environmental concerns but also the social and economic dimensions of development. Social insurance directly contributes to this broader agenda by providing multifaceted benefits.

- **Improving Labour Relations:** Providing social insurance demonstrates a commitment to worker welfare, fostering trust and cooperation between employers and employees. This can lead to reduced labour unrest and a more stable workforce. When workers feel secure and valued, they are more likely to be motivated, loyal, and productive, creating a positive workplace culture.
- **Compliance with International Standards:** Buyers in the global market increasingly demand compliance with ethical labour standards, including social protections for workers. A well-designed social insurance system can enhance Bangladesh's reputation as a responsible sourcing destination, ensuring continued access to international markets. Adhering to these standards can attract more business and investment, driving growth in the RMG sector.
- **Economic Stability:** Social insurance schemes reduce the financial burden on workers during emergencies, enabling them to maintain consumption levels. This, in turn, supports economic stability and growth in the domestic economy. When workers have financial security, they are less likely to experience severe economic hardship during crises, which helps stabilize the overall economy.
- **Strengthening Economic Resilience:** By protecting workers from economic shocks, social insurance contributes to macroeconomic stability. Financially secure workers are more likely to maintain consumption, which supports broader economic growth and reduces vulnerability to market volatility. During economic downturns, social insurance can act as a buffer, helping workers and their families to stay financially afloat.
- **Investing in Health and Well-being:** Ensuring that workers have access to health insurance and regular medical check-ups can lead to a healthier workforce. Healthy employees are more productive, take fewer sick days, and contribute positively to the company's output. Additionally, health education programmes integrated into social insurance schemes can promote healthy practices and awareness among workers.
- **Supporting Families and Communities:** Social insurance programmes that include family benefits, such as maternity leave, childcare support, and educational allowances, can have a ripple effect on the broader community. These benefits support workers in balancing their professional and personal lives, leading to greater job satisfaction and retention. Moreover, they contribute to the overall development and well-being of the community.
- **Encouraging Investment in Human Capital:** Social insurance schemes that offer retraining and upskilling opportunities empower workers to adapt to changing market demands. This not only enhances their employability but also drives innovation and efficiency within the sector. Investing in human capital through education and training programmes ensures that the workforce remains competitive and capable of meeting future challenges.

By incorporating these elements into social insurance, the RMG sector can achieve sustainable development, ensuring long-term success and resilience. The combined social, economic, and environmental benefits of a comprehensive social insurance programme contribute to a more equitable and prosperous future for all stakeholders.

6.1.4. Overcoming Implementation Challenges

While the potential benefits of social insurance are immense, implementing such systems in the RMG sector requires addressing specific challenges:

- **Financing the System:** A sustainable funding mechanism is critical. This could involve tripartite contributions from workers, employers, and the government, along with support from international development partners. Ensuring affordability for low-income workers while maintaining the financial health of factories is a delicate balance. Exploring innovative financing models, such as micro-contributions or matching funds from international organizations, can help establish a viable system.
- **Incorporating Informal Workers:** Extending social insurance to informal workers requires innovative approaches such as simplified registration processes, mobile-based contribution systems, and targeted outreach efforts to build trust and awareness among workers and employers. Leveraging technology can facilitate the inclusion of informal workers by making it easier for them to access and contribute to the system. Pilot programmes and case studies from other countries can provide valuable insights and strategies for successful implementation.
- **Strengthening Governance:** Effective implementation demands robust institutional frameworks, transparent governance, and strong regulatory oversight. Investing in digital platforms and capacity-building can improve service delivery and reduce administrative inefficiencies. Establishing clear guidelines and accountability measures can ensure that funds are managed responsibly and that benefits are distributed fairly. Regular monitoring and evaluation are essential to identify and address any issues promptly.
- **Building Stakeholder Consensus:** Achieving broad-based support for social insurance initiatives requires engaging all stakeholders, including workers, employers, government agencies, and civil society organizations. Conducting awareness campaigns and stakeholder consultations can foster understanding and buy-in, paving the way for smoother implementation. Collaborative efforts can also help in addressing concerns and adapting the system to meet the specific needs of the RMG sector.
- **Adapting to Changing Needs:** The social insurance system must be flexible and adaptive to respond to the evolving needs of the workforce and the market. Periodic reviews and updates to the system can ensure that it remains relevant and effective. Incorporating feedback from beneficiaries and stakeholders can help in refining the system and enhancing its impact.
- **Ensuring Sustainability:** The long-term success of social insurance systems depends on their sustainability. This involves not only financial sustainability but also maintaining the relevance and effectiveness of the benefits provided. Continuous engagement with stakeholders, regular assessments, and adjustments to the system can ensure its longevity and positive impact on the workforce and the sector.

By addressing these challenges, the RMG sector can establish a robust social insurance system that not only protects workers but also contributes to the overall stability and growth of the industry. A comprehensive approach that considers the unique context and needs of the sector is essential for the successful implementation and sustainability of social insurance initiatives.

6.1.5. Broader Implications for Society and Development

The establishment of social insurance in the RMG sector has far-reaching implications for Bangladesh's social and economic fabric:

- **Reducing Poverty and Inequality:** By protecting workers from falling into poverty during crises, social insurance contributes to national poverty reduction efforts. It helps bridge inequality gaps, particularly for women and other vulnerable groups.
- **Contributing to the SDGs:** Social insurance aligns with several Sustainable Development Goals (SDGs), including Goal 1 (No Poverty), Goal 3 (Good Health and Well-being), Goal 8 (Decent Work and Economic Growth), and Goal 10 (Reduced Inequalities). A robust social insurance system in the RMG sector can serve as a model for other industries in Bangladesh.
- **Enhancing Human Capital:** Social insurance supports workers in maintaining their physical and mental well-being, which is essential for productivity and innovation. Healthy and financially secure workers are more likely to invest in their children's education and overall family welfare, contributing to long-term human capital development.

Social insurance is not merely a worker benefit; it is a transformative tool for promoting equity, enhancing worker welfare, and ensuring the sustainable development of Bangladesh's RMG sector. By addressing systemic vulnerabilities and aligning with global ethical standards, social insurance strengthens the sector's resilience and competitiveness in the international market. For Bangladesh, a country poised to graduate from the LDC status, establishing a robust social insurance system in the RMG sector is a strategic imperative, paving the way for inclusive growth and sustainable development.

6.2. Positive Observations: Economic Efficiency and Productivity

Social insurance is a cornerstone for ensuring economic stability and improving productivity in Bangladesh's export-oriented RMG sector. As a labour-intensive industry that employs over four million workers and contributes around 84% of the country's export earnings, the RMG sector's economic significance cannot be overstated. However, it faces systemic vulnerabilities, including worker welfare issues, economic shocks, and productivity challenges. A robust social insurance system can address these challenges while offering benefits that extend to workers, employers, and the economy at large.

6.2.1. Enhancing Economic Stability Within the Sector

The RMG sector in Bangladesh faces numerous vulnerabilities, including worker welfare issues, economic shocks, and productivity challenges. The implementation of a robust social insurance system emerges as a cornerstone for addressing these challenges, offering a multifaceted approach to ensuring economic stability, enhancing productivity, and fostering long-term growth. By safeguarding workers' well-being and financial security, social insurance not only fortifies the RMG sector's resilience but also propels Bangladesh towards inclusive and sustainable development.

- **Mitigating the Impact of Economic Shocks:**
 - The RMG sector is highly exposed to global market fluctuations, pandemics, and geopolitical tensions that disrupt supply chains and reduce demand. For instance, during the COVID-19 pandemic, factory closures left thousands of workers unemployed, creating economic uncertainty.
 - Social insurance schemes, such as unemployment benefits or income support during crises, can stabilize workers' incomes and sustain their purchasing power. This ensures that demand for essential goods and services in the domestic economy remains steady, minimizing economic ripple effects.
- **Reducing Financial Vulnerability for Workers:**
 - Many RMG workers live on subsistence wages and have little to no savings to fall back on during emergencies. Social insurance programmes, including healthcare coverage, employment injury insurance, and retirement benefits, provide a safety net that protects workers from falling into poverty.
 - Financially secure workers are less likely to leave their jobs during personal crises, ensuring a more stable and experienced workforce for factories.
- **Lowering Public Costs of Crises:**
 - In the absence of social insurance, the burden of supporting displaced or injured workers often falls on the government through ad hoc subsidies or emergency relief. A structured social insurance system reduces these public costs by ensuring that risks are shared between workers, employers, and the government.
- **Attracting Ethical Buyers and Investors:**
 - Global buyers and investors increasingly prioritize ethical production standards, including social protections for workers. A strong social insurance framework enhances Bangladesh's reputation as a responsible sourcing destination, ensuring steady foreign investment and market access.

6.2.2. Improving Productivity with Fewer Risks for Businesses

Implementing robust social insurance schemes emerges as a promising solution to mitigate risks, enhance productivity, and secure sustainable growth in the RMG sector in Bangladesh. This comprehensive approach not only safeguards the livelihoods of workers but also strengthens the resilience and attractiveness of the RMG sector on the global stage.

- **Healthier Workforce, Higher Productivity:**
 - Workers in the RMG sector often face poor working conditions, leading to health issues that increase absenteeism and reduce productivity. Social

insurance schemes that provide healthcare coverage and preventive medical services ensure that workers remain healthy and productive.

- Employers benefit from fewer disruptions in production schedules and reduced costs associated with recruiting and training replacement workers for those who fall ill.
- **Reducing Workplace Turnover:**
 - High turnover rates are a significant challenge for RMG employers, as they lead to skill gaps, training costs, and inefficiencies. Social insurance programmes, including pensions and long-term benefits, foster loyalty and reduce turnover by incentivizing workers to stay with their current employers.
 - For workers, the promise of long-term benefits tied to continuous employment provides stability, encouraging them to invest in their skills and performance.
- **Minimizing Risks of Labour Unrest:**
 - The absence of adequate worker protections often leads to labour disputes and strikes, disrupting production and tarnishing the industry's reputation. Social insurance schemes act as a buffer against worker grievances by ensuring financial security and protection from exploitation.
 - A workforce that feels secure and valued is less likely to engage in disruptive activities, ensuring smoother operations for businesses.
- **Compliance with International Standards:**
 - Meeting global labour standards is crucial for maintaining Bangladesh's position in the international apparel market. Buyers in regions such as the EU and the US increasingly demand compliance with social protection norms as part of their ethical sourcing requirements.
 - Social insurance schemes provide a measurable framework for compliance, reducing risks of factory boycotts, cancelled orders, and reputational damage.
- **Lowering Costs of Workplace Injuries:**
 - Injuries and accidents in the RMG sector not only harm workers but also disrupt production and increase costs for employers. Social insurance programmes, particularly employment injury insurance, shift the financial burden of compensation from individual employers to a pooled risk system.
 - This system allows businesses to manage risks more effectively, ensuring that the cost of accidents does not threaten their financial stability.
- **Encouraging Workforce Formalization:**
 - A significant portion of the RMG workforce operates in informal arrangements, which lack contractual protections and benefits. Social insurance incentivizes formal employment by tying benefits such as pensions, healthcare, and maternity leave to formal work arrangements.
 - For employers, formalizing their workforce leads to better workforce management, higher compliance rates, and a competitive edge in international markets.

6.2.3. Broader Economic Benefits

The implementation of social insurance schemes emerges as a pivotal strategy for fostering economic stability and enhancing productivity. By offering a safety net that protects workers from financial and health-related risks, social insurance not only secures a motivated and skilled workforce but also instils confidence among international buyers regarding compliance with global labour standards. The ripple effects of such measures extend beyond the factory floor, promoting formal employment, lowering the incidence and costs of workplace injuries, and stimulating domestic demand through heightened financial security. Ultimately, social insurance stands as a cornerstone for ensuring the resilience, competitiveness, and equitable growth of Bangladesh's export-oriented economy.

- **Increasing Domestic Demand:**
 - Financially secure workers are more likely to spend on goods and services, boosting domestic consumption. This, in turn, supports businesses within and beyond the RMG sector, creating a virtuous cycle of economic growth.
 - Social insurance stabilizes household incomes, enabling families to invest in education, health, and better living standards, thereby contributing to long-term human capital development.
- **Strengthening Resilience Across the Economy:**
 - A social insurance system creates a more resilient economic structure by reducing the economic shocks associated with mass layoffs, industrial accidents, or public health crises. Financially secure workers can better weather economic downturns, ensuring a faster recovery for the sector and the economy as a whole.

Social insurance is essential for achieving economic stability and enhancing productivity in Bangladesh's export-oriented RMG sector. By protecting workers from economic shocks and health risks, social insurance ensures a stable, skilled, and motivated workforce, which directly translates into higher productivity and profitability for businesses. For employers, it mitigates risks, lowers costs, and aligns operations with global labour standards, securing Bangladesh's position as a leader in the global apparel market. More broadly, social insurance contributes to sustainable economic growth, ensuring that the sector remains resilient, competitive, and equitable in the face of future challenges.

6.3. Results from the Economic Modeling Exercise

The study utilises simulation exercises through a Computable General Equilibrium (CGE) model of the Bangladeshi economy to evaluate the macroeconomic and labour productivity effects of social insurance programs. The CGE model simulates potential scenarios involving the introduction of social insurance schemes, analysing interdependencies within the economy and assessing how changes in one sector might influence others.

The database of the CGE model is the Social Accounting Matrix (SAM) of the Bangladeshi economy for the most recently available year. This matrix encapsulates economic transactions among various sectors, households, and institutions, presenting a comprehensive snapshot of the economy. By modelling different scenarios, such as the

introduction of social insurance schemes, the study aims to predict potential impacts on GDP, sectoral output, and labour productivity. Through these simulations, the research highlights the significant role social insurance can play in fostering economic stability, promoting productivity, and enhancing the resilience of the export-oriented RMG sector in Bangladesh.

6.3.1. CGE Model Structure

Production bloc

In each sector, there is a representative firm, which earns capital income, pays dividends to households and pays direct income taxes to the government. We adopt a nested structure for production. Sectoral output is a Leontief function of value added and total intermediate consumption. Value added is in turn represented by a CES function of capital and composite labour. The latter is also represented by a CES function of two labour categories: skilled labour and unskilled labour. Both labour categories are assumed to be fully mobile in the model. In different production activities, we assume that a representative firm remunerates factors of production and pays dividends to households.

The equations of the production bloc are provided below. The description of the variables and parameters is provided in the Annex.

$$\begin{aligned}
 (1) \quad XS_j &= \text{Min} \left[\frac{CI_j}{io_j}, \frac{VA_j}{v_j} \right] \\
 (2) \quad VA_j &= A_j^{KL} \left[\alpha_i^{KL} LD_i^{-\rho_i^{KL}} + (1 - \alpha_i^{KL}) KD_i^{-\rho_i^{KL}} \right]^{-1/\rho_i^{KL}} \\
 (3) \quad LD_i &= A_i^{LL} \left[\alpha_i^{LL} QL_i^{-\rho_i^{LL}} + (1 - \alpha_i^{LL}) NQL_i^{-\rho_i^{LL}} \right]^{-1/\rho_i^{LL}} \\
 (4) \quad CI_j &= io_j XS_j \\
 (5) \quad DI_{i,j} &= aij_{i,j} CI_j \\
 (6) \quad LD_i &= \left(\frac{\alpha_i^{KL}}{1 - \alpha_i^{KL}} \right)^{\sigma_i^{KL}} \left(\frac{r_i}{w_i} \right)^{\sigma_i^{KL}} KD_i \\
 (7) \quad NQL_i &= \left(\frac{\alpha_i^{LL}}{1 - \alpha_i^{LL}} \right)^{\sigma_i^{LL}} \left(\frac{wq}{wnq} \right)^{\alpha_i^{LL}} QL_i
 \end{aligned}$$

Income and demand bloc

Households earn their income from production factors: skilled and unskilled labour, and agricultural and non-agricultural capital. They also receive dividends, intra-household transfers, government transfers and remittances and pay direct income tax to the government. Household savings are a fixed proportion of total disposal income. Household demand is represented by a linear expenditure system (LES) derived from the maximisation of a Stone-Geary utility function. The model includes nine household categories according to the characteristics of the household head, as identified in the HES household survey. Five of these categories correspond to rural households and four are of urban households. Minimal

consumption levels are calibrated by using guess estimates of the income elasticity and the Frisch parameters.

The government receives direct tax revenue from households and firms and indirect tax revenue on domestic and imported goods. Its expenditure is allocated between the consumption of goods and services (including public wages) and transfers. The model accounts for indirect or direct tax compensation in the case of a tariff cut. The equations are provided below:

$$\begin{aligned}
YH_h &= \lambda_h^{WQ} \cdot wq \sum_j QL_j + \lambda_h^{WQN} \cdot \sum_j NQL_j + \lambda_h^R \sum_{nag} r_{nag} KD_{nag} + \\
&\lambda_h^L \cdot \sum_{ag} r_{ag} KD_{ag} + P_{index} TG_h + P_{index} TH_{h,hj} + P_{index} TWH_h + DIV_h \quad (8) \\
(9) \quad YDH_h &= YH_h - DTH_h \\
(10) \quad SH_h &= v \cdot \psi_h \cdot YDH_h \\
(11) \quad YF &= \lambda^{RF} \sum_i r_i KD_i + \lambda^{LF} \cdot rl \cdot LAND \\
(12) \quad SF &= YF - \sum_h DIV_h - e \cdot DIV^{ROW} - DTF \\
(13) \quad YG &= \sum_i TI_i + \sum_i TIE_i + \sum_i DTH_h + DTF \\
(14) \quad SG &= YG - G - PINDEX \sum_h TG_h \\
(15) \quad TI_i &= tx_i (P_i XS_i - PE_i EX_i) + tx_i (1 + tm_i) \cdot e \cdot PWM_i M_i \\
(16) \quad TIM_i &= tm_i e \cdot PWM_i M_i \\
(17) \quad TIE_i &= te_i PE_i EX_i \\
(18) \quad DTH_h &= tyh_h YH_h \\
(19) \quad DTF &= tyf \cdot YF
\end{aligned}$$

International Trade

We assume that foreign and domestic goods are imperfect substitutes. This geographical differentiation is introduced by the standard Armington assumption with a constant elasticity of substitution function (CES) between imports and domestic goods. On the supply side, producers make an optimal distribution of their production between exports and local sales according to a constant elasticity of transformation (CET) function. Furthermore, we assume a finitely elastic export demand function that expresses the limited power of the local producers on the world market. In order to increase their exports, local producers may decrease their free-on-board (FOB) prices. The equations are provided below:

$$\begin{aligned}
(20) \quad XS_i &= B_i^E \left[\beta_i^E EX_i^{k_i^E} + (1 + \beta_i^E) D_i^{k_i^E} \right]^{1/k_i^E} \\
(21) \quad EX_i &= \left[\left(\frac{PE_i}{PL_i} \right) \left(\frac{1 - \beta_i^E}{\beta_i^E} \right) \right]^{t_i^E} D_i \\
(22) \quad EXD_i &= EXD_i^o \cdot \left(\frac{PWE_i}{PE_{FOB_i}} \right)^{elast_i} \\
(23) \quad Q_i &= A_i^M \left[\alpha_i^M M_i^{-\rho_i^M} + (1 - \alpha_i^M) D_i^{-\rho_i^M} \right]^{-1/\rho_i^M} \\
(24) \quad M_i &= \left[\left(\frac{PD_i}{PM_i} \right) \left(\frac{\alpha_i^M}{1 - \alpha_i^M} \right) \right]^{\sigma_i^M} D_i
\end{aligned}$$

$$(25) CAB = \sum_i PWM_i M_i + \lambda^{ROW} \sum_i r_i KD_i / e + DIV^{ROW} - \sum_i PE_{FOB_i} EX_i$$

Price blocs

The price equations are provided below. The nominal exchange rate is the numéraire in each period.

$$(26) PV_j = \frac{P_j XS_j - \sum_i PC_i DI_{i,j}}{VA_j}$$

$$(27) r_i = \frac{PV_i VA_i - w_i LD_i}{KD_i}$$

$$(28) w_i = \frac{wq.QL_i - wnq.NQL_i}{LD_i}$$

$$(29) PD_i = (1 + tx_i) PL_i$$

$$(30) PM_i = (1 + tx_i) \cdot (1 + tm_i) \cdot e \cdot PWM_i$$

$$(31) PE_i = \frac{e \cdot PE_{FOB_i}}{1 + te_i}$$

$$(32) PC_i Q_i = PD_i D_i + PM_i M_i$$

$$(33) P_i XS_i = PL_i D_i + PE_i EX_i$$

$$(34) P_{inv} = \prod_i \left(\frac{PC_i}{\mu_i} \right)^{\mu_i}$$

$$(35) P_{index} = \sum_i \delta_i PV_i$$

Equilibrium Condition

General equilibrium is defined by the equality (in each period) between the supply and demand of goods and factors and the investment-saving identity. The equations are provided below:

$$(36) Q_i = DIT_i + \sum_h C_{i,h} + INV_i + Dstk_i$$

$$(37) EX_i = EXD_i$$

$$(38) LSQ = \sum_j QL_j$$

$$(39) LSNQ = \sum_j NQL_j$$

$$(40) IT + \sum_i PC_i Dstk_i = \sum_h SH_h + SF + SG + e \cdot CAB$$

6.3.2. The Social Accounting Matrix (SAM) of Bangladesh

For the purpose of this exercise, a SAM for 2023 for Bangladesh has been used. The 2023 SAM identifies the economic relations through four types of accounts: (i) production activity and commodity accounts for the 23 sectors; (ii) 3 factors of production with 2 types of labour and 1 type of capital; (iii) current account transactions among the 4 main institutional agents; household-members and unincorporated capital, corporation, government and the rest of the world; and (iv) one consolidated capital accounts to capture the flows of savings and investment. The disaggregation of activities, commodities, factors and institutions in the SAM is given in Table 1.

Table 1: Features of 2023 SAM of Bangladesh

SAM Accounts	Detailed account classification
Activities (23)	
Agriculture	Cereal Crops, Commercial Crops, Livestock, Poultry, Fishing, Forestry, Other Agriculture
Industry	Minerals, Food-Beverage-Tobacco, Leather Products, Readymade garments, Chemical-Fertilizer, Machinery, Petroleum Products, Other Industries
Services	Construction, Utility, Trade, Hotel, Transport and Communication, Financial Service, Public Administration, Social Services, Other Services
Commodities (23)	
Agriculture	Cereal Crops, Commercial Crops, Livestock, Poultry, Fishing, Forestry, Other Agriculture
Industry	Minerals, Food-Beverage-Tobacco, Leather Products, Readymade garments, Chemical-Fertilizer, Machinery, Petroleum Products, Other Industries
Services	Construction, Utility, Trade, Hotel, Transport and Communication, Financial Service, Public Administration, Social Services, Other Services
Factors of Production (03)	
	Low-skilled workers, High-Skilled workers
	Capital factor
Tax-Subsidy (05)	
	Indirect Tax, direct tax and non-tax (4)
	Subsidy (1)
Institutions (14)	
	Household (9): Rural – Income Group 1 to 5 and Urban – Income Group 1 to 4.
	Government
	Corporation
	Rest of the World
	Savings or Gross fixed capital (consolidated capital)

Source: The Social Accounting Matrix (SAM) of Bangladesh of 2023, prepared by SANEM for the Planning Commission of Bangladesh

6.3.3. Simulation and Results

Empirical studies have indicated a positive impact on firm-level productivity due to the enhanced provision of social security for workers. For instance, in Vietnam, Lee and Torm (2017) show that firms increasing social security coverage by 10% experience a per-worker revenue gain of between 1.1% and 2.6%, and a profit gain of around 1.3% to 3.0%. Similarly, in Indonesia, an ILO (2019) study shows that a 10% increase in social security spending is associated with a per-worker revenue gain of up to 2%.

In the context of Bangladesh, empirical studies on the effect of social security on firm-level productivity are limited. Therefore, in the CGE model, we simulated a scenario where total factor productivity in the textile and clothing industry in Bangladesh rises by 2%, considering that this factory productivity gain is generated due to the expanded coverage of social insurance for RMG workers.

Table 2: Simulation Results from the CGE Model (% change from the base)

Indicator	% change from the base
Real GDP	0.29
Total export	1.38
RMG export	1.81
Investment	0.39
Household consumption	0.28
Import	0.50

Source: CGE model

The simulation results reported in Table 2 provide key insights into the economy-wide impacts of a 2% increase in total factor productivity (TFP) in the RMG sector, analyzed through the CGE model. The results reveal a 0.29% increase in real GDP, indicating that the productivity boost in the RMG sector contributes meaningfully to aggregate economic growth. This reflects the sector's pivotal role in driving the overall economy, given its significant share in Bangladesh's export earnings and employment. Total exports are projected to rise by 1.38%, with the RMG sector exhibiting a more robust growth of 1.81%. This underscores the sector's comparative advantage and highlights its capacity to respond effectively to productivity-enhancing measures, such as expanded social insurance for the workers.

The investment would increase by 0.39%, pointing to strengthened capital formation that supports sustained economic expansion. Although moderate, this rise reflects confidence in the economy's productive sectors, further amplified by a favourable export climate. Household consumption is expected to grow by 0.28%, signalling improvements in household welfare and disposable income, likely influenced by higher wages or job creation in the RMG sector. Imports, on the other hand, are projected to rise by 0.50%, driven by greater demand for raw materials and intermediate goods essential for supporting export-led growth.

The combined effect of these changes highlights the strategic importance of productivity improvements in the RMG sector. When coupled with expanded social insurance coverage for workers, the policy intervention has the potential to deliver inclusive and sustained economic benefits. The gains in exports and investment provide critical impetus for growth, while the incremental rise in household consumption points to a more equitable distribution of the benefits. This analysis underscores the need for targeted policies that enhance sectoral productivity while ensuring worker protection, thereby fostering a resilient and inclusive economic trajectory.

7. Political Economy Analysis of Social Insurance in the Export Economy

7.1. In Search of a Suitable Political Economy Framework

Institutional political economy theories and the political settlement framework provide useful tools for analyzing the political economy constraints associated with the implementation of social insurance policies in Bangladesh's RMG sector. These frameworks enable a more nuanced understanding of the sector's complex dynamics by examining the interaction of formal and informal institutions, the unequal distribution of power, and the alignment of various stakeholders. Their focus on governance structures, institutional arrangements, and power relations offers a thorough exploration of the challenges in implementing social insurance policies. Specifically, they shed light on the ways in which these elements shape the institutional landscape and offer actionable insights for overcoming obstacles in policy implementation. The deals space framework, as proposed by Pritchett et al., complements this analysis by examining the macro-political dynamics and the predictability of elite bargains. However, while the deals space framework provides a valuable broader lens, it is less attuned to the specific intricacies and sectoral dynamics of the RMG industry in Bangladesh.

The RMG sector in Bangladesh is deeply marked by labour-capital conflicts, fragmented labour unions, and the pervasive influence of global supply chains, which contribute to the complexity of social insurance policy implementation. Institutional political economy theories are well-equipped to address these complexities, particularly by focusing on how institutional structures, including rules, regulatory frameworks, governance mechanisms, and state capacity, shape policy outcomes. One of the key challenges in this regard is the weakness of regulatory frameworks and the lack of robust enforcement mechanisms, both of which undermine compliance with labour laws and hinder the effective rollout of social insurance policies. The lack of state capacity to oversee and enforce these policies further exacerbates the challenge (Raihan, 2024). Institutional political economy theories help explain how these weaknesses in state institutions can lead to inconsistent or delayed policy implementation, often leaving workers without access to the social insurance benefits they are entitled to.

The political settlement framework, on the other hand, brings a different lens to understand the sector's dynamics by focusing on the alignment of interests among key stakeholders, such as state actors, industry owners, labour groups, and international organizations. This framework underscores the importance of understanding how different groups with competing interests negotiate and align their preferences to influence policy outcomes. In the context of the RMG sector, this framework highlights how the alignment (or misalignment) of interests among stakeholders can determine whether social insurance policies are successfully implemented or remain stalled. For instance, the political settlement framework emphasizes that in a context where powerful industry groups, such as the BGMEA, have significant political leverage, they may obstruct reforms that challenge their business interests or impose additional financial burdens. In such a scenario, the competing interests of labour unions, which advocate for better worker protections, and global actors,

who push for compliance with international labour standards, often result in policy inertia or the partial implementation of reforms.

The role of power asymmetries and distributional conflicts is critical in understanding the challenges to the implementation of social insurance policies in the RMG sector. Institutional political economy theories highlight how collective action problems among workers, including the fragmentation of labour unions and the absence of unified representation, make it difficult for workers to advocate for social insurance reforms effectively. These challenges are further exacerbated by the difficulties in building broad-based coalitions among labour groups and civil society organisations, which are often necessary to exert pressure on policymakers. The political settlement framework adds further depth by explaining how resistance from powerful stakeholders, particularly industry owners, can obstruct efforts to introduce social insurance policies. In this context, the framework highlights the distributional conflicts that arise from competing interests, where RMG owners seek to minimise their costs, while labour unions demand greater benefits for workers. These competing priorities contribute to the slow and uneven progress in implementing social insurance reforms in the sector.

Moreover, both institutional political economy theories and the political settlement framework offer valuable insights into the role of grassroots mobilisation and worker agency in influencing policy change. Worker protests, strikes, and advocacy campaigns have played a critical role in pushing for changes in labour conditions and social insurance policies, especially after events like the Rana Plaza collapse. The frameworks acknowledge the importance of bottom-up pressures and the ways in which worker agency can challenge the status quo and destabilise entrenched coalitions that resist reform. In this sense, these frameworks provide a more comprehensive perspective on the dynamics of policy change compared to the deals space framework, which primarily focuses on elite-level bargains and high-level policy agreements. While elite actors may hold significant power in shaping policy, the mobilisation of workers and the broader public can provide a countervailing force that demands accountability and more equitable policies.

International actors and global norms also play a crucial role in shaping the policies governing the RMG sector. Institutional political economy theories and the political settlement framework help illuminate the influence of external pressures, such as international labour standards, buyer demands for ethical compliance, and global initiatives like the Accord on Fire and Building Safety. These frameworks provide analytical tools to understand how international actors—ranging from foreign governments to multinational corporations—align with domestic coalitions to advocate for reforms that improve working conditions and enhance social insurance protections for workers. By examining the alignment between domestic and international actors, these frameworks shed light on how global supply chain dynamics influence the bargaining power of labour and capital in the RMG sector. Moreover, they highlight how international norms and standards can serve as catalysts for policy change, especially when aligned with domestic advocacy efforts and pressure from workers' organisations.

The deals space framework provides valuable insights into macro-level dynamics, focusing on the predictability and openness of economic environments shaped by elite bargains. However, its focus on elite deals and its relative neglect of sector-specific nuances, state capacity constraints, and informal institutions limits its applicability to the RMG sector. The framework is less equipped to address the implementation challenges arising from weak institutional oversight or to analyse the dynamic and evolving nature of labour rights movements and global economic pressures. Nevertheless, its broad perspective on elite bargains offers useful context for understanding overarching political dynamics.

In conclusion, the institutional political economy theories and the political settlement framework offer robust and context-sensitive tools for analysing the political economy constraints of implementing social insurance policies in Bangladesh's RMG sector. These frameworks account for the sector's complexities, power dynamics, and the influence of both domestic and international actors, making them especially relevant for addressing the challenges of policy implementation. While the deals space framework provides valuable macro-level insights, its applicability is enhanced when complemented by the more detailed and sector-specific analyses offered by institutional political economy and political settlement perspectives.

7.2. Stakeholder Power and Interests in the RMG Industry in Bangladesh Affecting the Implementation of the Social Insurance Scheme

7.2.1. Key Stakeholders

The RMG sector's social insurance landscape is influenced by an intricate web of stakeholders, each with distinct interests and levels of power:

- **Factory Owners and Industry Associations:** Factory owners, represented by powerful organizations such as the BGMEA and the BKMEA, hold substantial influence. These bodies often prioritize profit margins and resist regulatory measures that might increase operational costs, employing lobbying and political connections to safeguard their interests.
- **International Buyers and Brands:** Global brands and retailers play an outsized role in shaping labour practices through supply chain standards and corporate social responsibility (CSR) policies. While some brands actively promote better social protection measures, their overarching focus on cost efficiency often undermines such efforts.
- **International Organizations:** Multilateral institutions, including the ILO, the World Bank, and the International Finance Corporation (IFC), provide technical expertise, funding, and global frameworks. Their role is instrumental in aligning Bangladesh's labour standards with international conventions.
- **Workers and their Unions:** Workers constitute the backbone of the RMG sector, advocating for fair wages, secure working conditions, and accessible social protection. However, the sector is characterized by low trade union density—one of the lowest globally—owing to systemic suppression, legal barriers, and employer resistance. This significantly curtails the ability of workers to negotiate effectively.

- **Government Agencies:** Key government entities like the Ministry of Labour and Employment (MoLE), the Ministry of Finance, and the Department of Inspection for Factories and Establishments (DIFE) are pivotal in formulating and enforcing labour and social insurance policies. However, these agencies often grapple with limited resources, overlapping mandates, and inconsistent political commitment.
- **Civil Society and Advocacy Groups:** Non-governmental organizations (NGOs) and advocacy networks act as intermediaries between workers and policymakers, amplifying workers' voices and pressing for policy reforms.

7.2.2. Power Dynamics

The RMG sector exhibits pronounced power asymmetries, with factory owners and industry associations commanding significant sway over policy decisions. This dominance is facilitated through:

- **Lobbying and Political Patronage:** Industry stakeholders leverage their economic clout and political connections to influence legislation and regulatory enforcement, often to the detriment of worker welfare.
- **Fragmentation of Worker Representation:** Trade unions remain weak, fragmented, and vulnerable to co-optation. Fear of retaliation discourages workers from organizing, perpetuating their marginalization in policymaking forums.
- **Influence of International Buyers:** While global brands can pressure factory owners to adhere to higher labour standards, their cost-centric procurement practices frequently undercut meaningful investments in social insurance.
- **Global Scrutiny and Advocacy:** International campaigns and media attention on worker rights in Bangladesh occasionally compel the government and factory owners to undertake reforms. However, such efforts are often reactive and superficial.

Understanding these stakeholder dynamics and power imbalances is critical to devising equitable and sustainable social insurance policies that address the vulnerabilities of RMG workers while balancing the interests of other stakeholders.

7.3. Institutional Frameworks Governing the RMG Sector in Bangladesh Affecting the Implementation of the Social Insurance Scheme

7.3.1. Formal Institutions

Formal institutions encompass codified rules, laws, and policies that provide the legal framework for governing the RMG sector. These institutions establish the standards and regulations that guide the operations, labour practices, and social protections within the industry. Prominent instruments in this context include labour laws, the National Social Security Strategy (NSSS) of 2015, and international provisions such as those outlined under the ILO conventions.

Labour laws are fundamental in defining the rights and responsibilities of workers and employers in the RMG sector. These laws typically cover areas such as minimum wages, working hours, occupational health and safety, and workers' rights to unionize and engage

in collective bargaining. By setting these standards, labour laws aim to protect workers from exploitation and ensure fair treatment within the workplace. However, the effectiveness of labour laws depends heavily on their implementation and enforcement.

The NSSS of 2015 is a comprehensive policy framework developed by the government of Bangladesh to enhance social protection for its citizens, including those employed in the RMG sector. The NSSS outlines various social insurance schemes and safety nets designed to provide financial support and security to workers, particularly in times of unemployment, illness, maternity, and old age. The strategy aims to create a more inclusive and equitable social protection system that aligns with international standards (Government of Bangladesh, 2015).

International provisions, such as those under ILO conventions, play a critical role in shaping labour standards and practices in the RMG sector. Bangladesh, as a member of the ILO, is committed to adhering to various conventions that promote decent work, social justice, and workers' rights. Notable ILO conventions relevant to the RMG sector include Convention No. 87 on Freedom of Association and Protection of the Right to Organize⁷⁵, and Convention No. 98 on the Right to Organize and Collective Bargaining⁷⁶. These conventions set international benchmarks for labour rights and provide a framework for national legislation.

Despite the formal adoption of these instruments, they often suffer from weak enforcement mechanisms, resulting in limited practical impact. Enforcement challenges can arise from various factors, including insufficient resources, lack of capacity among enforcement agencies, and corruption. Weak enforcement undermines the effectiveness of labour laws and social protection measures, leaving workers vulnerable to exploitation and unsafe working conditions (Syed, 2023).

The problem of weak enforcement is exacerbated by regulatory capture, wherein powerful industrial stakeholders exert influence over enforcement agencies, skewing the implementation of laws in their favour. Regulatory capture occurs when regulatory agencies, which are supposed to act in the public interest, become dominated by the industries they are tasked with regulating. In the context of the RMG sector, influential factory owners and industry associations may use their political and economic power to shape regulations and enforcement practices to their advantage. This can result in lax enforcement, diluted labour standards, and inadequate protection for workers (Raihan, 2024).

Addressing the challenges of weak enforcement and regulatory capture requires a multifaceted approach. Strengthening the capacity and independence of regulatory agencies is crucial to ensuring the effective enforcement of labour laws and social protection measures. Enhancing transparency and accountability in regulatory processes can help reduce the influence of powerful stakeholders and promote fair and impartial enforcement. Additionally, empowering workers and their representatives to actively participate in monitoring and advocating for their rights can contribute to more robust enforcement and

⁷⁵ https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO::p12100_instrument_id:312232

⁷⁶ https://normlex.ilo.org/dyn/nrmlx_en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312243:NO

better protection for workers in the RMG sector (Transparency International Bangladesh, 2018).

7.3.2. Informal Institutions

Informal institutions, including cultural norms, social practices, and patron-client networks, are pivotal in shaping policy outcomes within the RMG sector. Unlike formal institutions, which are codified and officially recognized, informal institutions operate based on unwritten rules and relationships that influence how individuals and organizations behave.

Cultural norms and social practices play a significant role in determining the behaviour of individuals and groups within the RMG sector. In Bangladesh, societal expectations and traditional values can influence labour practices and workplace dynamics. For instance, cultural attitudes toward gender roles may affect women's participation in the workforce and their access to leadership positions. Social norms around deference to authority can also impact workers' willingness to voice grievances or demand better working conditions (Kabeer & Mahmud, 2004).

Patron-client relationships are a prominent feature of informal institutions in Bangladesh. These networks are characterized by reciprocal arrangements between patrons (e.g., political elites or business leaders) and clients (e.g., factory owners or workers). Patrons provide resources, protection, and favours to their clients in exchange for loyalty and support. In the RMG sector, these relationships often result in policy decisions that disproportionately favour factory owners while neglecting the rights and welfare of workers (Lewis, 2011).

The prevalence of patron-client networks means that policy outcomes in the RMG sector are often shaped by the interests of powerful industrial stakeholders. Factory owners, who are well-connected to political elites, can leverage these relationships to secure favourable policies and lax enforcement of labour laws. This dynamic undermines the effectiveness of formal institutions, as regulations intended to protect workers may be overlooked or selectively enforced to benefit influential actors (Khan, 2011).

Informal institutions can frequently undermine the effectiveness of formal institutions by perpetuating an environment of favouritism and inequity. For example, labour laws and social protection measures, while codified, may not be effectively implemented if powerful stakeholders exert influence over enforcement agencies. This regulatory capture results in a lack of accountability and transparency, allowing factory owners to bypass legal requirements with impunity (Transparency International Bangladesh, 2020).

The case of the RMG sector in Bangladesh illustrates the impact of informal institutions on policy outcomes. Despite the existence of formal labour laws and international commitments to workers' rights, enforcement remains weak due to the influence of powerful industry associations and political connections. Factory inspections, for example, are often cursory or infrequent, and penalties for violations are rarely enforced. As a result, workers continue to

face unsafe working conditions, low wages, and limited social protection (Rahman & Langford, 2014).

Addressing the challenges posed by informal institutions requires a multifaceted approach. Strengthening formal institutions through capacity building, transparency, and accountability is essential. This includes ensuring that regulatory agencies are adequately resourced and independent from political influence. Additionally, empowering workers and their representatives to actively participate in monitoring and advocacy efforts can help counterbalance the power of industrial stakeholders. Cultural and social change initiatives aimed at shifting norms and practices toward greater equity and respect for workers' rights are also crucial (Transparency International Bangladesh, 2018).

7.4. Policy Outcomes and Constraints Related to the Implementation of the Social Insurance Scheme in Bangladesh

7.4.1. Policy Design and Implementation

The design and implementation of social insurance policies are deeply influenced by the balance of power among stakeholders. In the context of Bangladesh's RMG sector, this balance shapes the way policies are developed, implemented, and sustained. The case of the EIS Pilot serves as an illustrative example of how stakeholder dynamics affect policymaking.

The EIS Pilot was launched in response to international advocacy rather than domestic demand, highlighting the reactive nature of policymaking in the sector. Following tragic incidents such as the Rana Plaza collapse, international stakeholders, including labour rights organizations, consumer advocacy groups, and multinational brands, exerted pressure on the Bangladeshi government to improve labour standards and social protections for RMG workers.⁷⁷ This external pressure prompted the government to introduce the EIS Pilot as a measure to address work-related injuries and align with international labour standards, particularly ILO Convention No. 121.

The pilot's reliance on voluntary contributions from international brands underscores the reluctance of industry stakeholders to accept increased financial obligations. Many factory owners in the RMG sector are hesitant to bear the additional costs associated with mandatory social insurance schemes. This reluctance is driven by concerns over profit margins, competitiveness, and potential disruptions to business operations. Consequently, the EIS Pilot relies on voluntary contributions from international brands rather than mandatory contributions from Bangladeshi employers. While this approach ensures initial funding for the pilot, it also limits its scope and sustainability, as participation and financial support are not guaranteed.

The absence of a clear roadmap for scaling up the EIS Pilot into a mandatory scheme illustrates the challenges in transitioning from pilot projects to systemic reforms. A mandatory employment injury insurance scheme would require substantial legislative and

⁷⁷ <https://www.theguardian.com/world/2013/jun/06/bangladesh-factory-building-collapse-community>

regulatory changes, as well as buy-in from industry stakeholders. The reluctance of factory owners to accept increased financial obligations and the potential resistance from influential industry associations pose significant obstacles to such reforms. Without a well-defined plan and robust enforcement mechanisms, the transition from a voluntary pilot to a mandatory programme remains uncertain.

The balance of power among stakeholders is a critical factor in the successful design and implementation of social insurance policies. In the RMG sector, powerful industry associations such as the BGMEA and the BKMEA wield significant influence over policymaking. Their interests often prioritize maintaining competitiveness and minimizing costs, which can conflict with the goals of improving labour standards and expanding social protection. Effective policy design requires balancing these competing interests and finding common ground that addresses the needs of both workers and employers.

Enhancing the sustainability and effectiveness of social insurance policies in the RMG sector necessitates a comprehensive approach that involves all relevant stakeholders. This includes engaging industry associations, labour unions, government agencies, and international organizations in collaborative discussions to develop mutually acceptable solutions. Strengthening regulatory frameworks, ensuring transparent enforcement, and providing incentives for compliance can help bridge the gap between pilot projects and systemic reforms. Additionally, building domestic support for social insurance policies through awareness campaigns and stakeholder engagement is essential for achieving long-term success.

7.4.2. Regulatory Capture

Regulatory capture is a pervasive issue in the RMG sector, significantly impacting policy formulation and enforcement. Industry associations like the BGMEA wield substantial influence over the regulatory environment, often to the detriment of worker protection.

The BGMEA and similar organizations represent the interests of factory owners and industrial stakeholders within the RMG sector. These associations have considerable economic and political clout, enabling them to shape policies and regulatory frameworks to favour their constituents. The BGMEA, in particular, plays a central role in lobbying for industry-friendly regulations, negotiating with the government, and advocating for the interests of RMG factory owners (Raihan, 2024).

Regulatory capture ensures that policies are often tailored to prioritize industrial interests. This includes minimizing compliance costs and resisting mandatory contributions to social insurance schemes. For instance, when new labour regulations or social protection policies are proposed, industry associations like the BGMEA actively engage in the policymaking process to ensure that the resulting regulations impose minimal financial and operational burdens on factory owners. This can involve lobbying for relaxed enforcement standards, reduced penalties for non-compliance, and voluntary rather than mandatory contributions to social insurance programmes.

Regulatory capture also contributes to weak enforcement of labour standards. While formal labour laws and social protection measures exist, their implementation is often compromised by the influence of powerful industry stakeholders. Regulatory agencies, which are supposed to enforce labour standards and ensure compliance, may be swayed by industry associations to adopt a lenient approach. This can result in infrequent inspections, superficial audits, and inadequate penalties for violations. Consequently, labour rights violations and unsafe working conditions persist, perpetuating a cycle of limited social protection for workers.

The consequence of regulatory capture is that regulatory frameworks fail to adequately address worker vulnerabilities. Policies that are designed to protect workers and provide social safety nets are weakened or inadequately enforced, leaving workers exposed to exploitation, poor working conditions, and insufficient social protection. This perpetuates a cycle where workers' rights and welfare are consistently undermined, and the benefits of economic growth in the RMG sector are unevenly distributed (Kabeer & Mahmud, 2004).

Addressing regulatory capture in the RMG sector requires a concerted effort to strengthen the independence and capacity of regulatory agencies. This includes ensuring that these agencies are adequately resourced, insulated from political and industrial pressures, and empowered to enforce labour standards impartially. Additionally, increasing transparency and accountability in the policymaking process can help mitigate the influence of industry associations. Engaging workers' representatives and civil society organizations in policy discussions can also provide a counterbalance to the power of industrial stakeholders and promote more equitable and worker-friendly policies.

7.4.3. Impact on Workers

The absence of a comprehensive social insurance system leaves RMG workers in a precarious economic position. This systemic shortfall is a significant issue, as RMG workers constitute a substantial portion of Bangladesh's labour force and are key contributors to the country's economy.

Workers in the RMG sector face significant risks, including income shocks from workplace injuries. The nature of their work exposes them to various occupational hazards, such as accidents, machinery-related injuries, and exposure to harmful substances. In the absence of a robust social insurance system, workers who suffer from workplace injuries often do not receive adequate compensation or support. This lack of financial assistance can lead to severe economic hardship for injured workers and their families, as they struggle to cover medical expenses and lost income.

Unemployment is another critical risk faced by RMG workers. The sector is characterized by volatile market conditions, fluctuating demand, and frequent factory closures. Workers who lose their jobs due to these factors typically do not have access to unemployment benefits, leaving them without a safety net during periods of joblessness. The lack of unemployment insurance exacerbates economic insecurity, as workers are unable to maintain their

standard of living and are often forced to take on precarious, low-paying jobs to make ends meet.

The absence of retirement security further compounds the economic vulnerabilities of RMG workers. Many workers in the sector do not have access to pension schemes or savings plans that would provide financial support in old age. This leaves them reliant on their limited personal savings, which are often insufficient to cover their needs after retirement. The lack of retirement security forces older workers to continue working under strenuous conditions or to depend on family members for support, which can strain family resources and perpetuate intergenerational poverty.

For many RMG workers, the current framework offers only minimal, piecemeal benefits that are insufficient to ensure long-term financial stability. The social protection measures that do exist are often fragmented and limited in scope. For example, workers may receive small, ad hoc payments for workplace injuries or maternity benefits, but these are rarely enough to cover the full extent of their needs. The lack of comprehensive coverage means that workers remain vulnerable to economic shocks and are unable to build a secure financial future.

This inadequate social protection framework perpetuates economic insecurity and exposes workers to heightened vulnerabilities. Without reliable access to social insurance, RMG workers are continuously at risk of falling into poverty due to unforeseen events such as illness, injury, or job loss. This economic insecurity affects not only individual workers but also their families and communities, as they struggle to cope with financial instability and lack of support.

The lack of a comprehensive social insurance system undermines broader efforts to promote inclusive and equitable economic growth in Bangladesh. Economic growth that does not address the vulnerabilities of its labour force is unsustainable in the long run. By failing to provide adequate social protection, the country risks perpetuating cycles of poverty and inequality, which can lead to social unrest and hinder overall economic development. Implementing a robust social insurance system is essential for creating a more inclusive and equitable growth model that benefits all segments of society.

7.5. Comparison of Social Insurance Schemes among Bangladesh, Cambodia and Nepal

The social insurance systems in Bangladesh, Nepal, and Cambodia have evolved in distinct ways, reflecting the unique economic, political, and social contexts of each country. These systems are designed to protect workers from various risks, including unemployment, disability, illness, and old age, but they differ in terms of coverage, sustainability, and effectiveness. A comparative analysis of the social insurance schemes in these three countries provides valuable insights into the challenges and features of such systems in developing countries, especially in terms of coverage gaps, financial sustainability, and the need for reform.

In Bangladesh, the social insurance system is still developing and mainly covers formal sector employees. The key programmes include the Employees' Provident Fund (EPF), the Gratuity Scheme, and the EII, which is still in the pilot phase. These programmes aim to provide workers with financial support during periods of illness, injury, or retirement. However, the formal social insurance coverage in Bangladesh is limited, as the majority of the workforce is employed in the informal sector, where social security systems are largely absent. While the government has taken steps to expand coverage, challenges such as inadequate funding, low participation rates, and the need for stronger regulatory frameworks persist.

In contrast, Nepal has a more comprehensive social security framework, with programmes like the Social Security Fund (SSF), which includes provisions for old age, disability, health, and maternity benefits. The SSF was established in 2011, but it primarily covers employees in the formal sector, with limited penetration in rural areas and among informal workers. A significant portion of Nepal's workforce is still outside the scope of social insurance, and the system faces challenges related to financial sustainability, poor administrative capacity, and insufficient public awareness. Despite these issues, the Nepali government has made efforts to expand coverage and improve the system's functioning, including the recent expansion of the SSF to cover more workers.

The Cambodian government's National Social Security Fund (NSSF) was established in 2007, and it provides coverage for workers in the formal sector, including health insurance, pensions, and employment injury benefits. The system, however, faces similar challenges to those in Bangladesh and Nepal, such as limited coverage, insufficient awareness among workers, and weak enforcement mechanisms. A significant proportion of the workforce in Cambodia, especially in rural areas and the informal economy, is not covered by the social insurance system. The government has started to expand the system, but there is still a long way to go in terms of ensuring broader coverage and improving the quality of benefits.

A key reason for comparing the social insurance schemes in Bangladesh, Nepal, and Cambodia is that all three countries share several common challenges. First, they have large informal sectors with high levels of unregistered and precarious employment, making it difficult to extend social insurance coverage to a significant portion of the workforce. This issue is particularly important as informal workers, who make up the majority of the labour force in these countries, remain excluded from social security programmes, which leaves them vulnerable to economic shocks, health risks, and old age poverty.

Second, the financial sustainability of social insurance schemes remains a challenge across all three countries. In Bangladesh, the relatively low participation rates, especially among informal workers, and the high reliance on contributions from international brands have raised concerns about the long-term viability of the schemes. In Nepal and Cambodia, the administrative capacities of social insurance schemes are also limited, and the systems are often underfunded, with the potential for long-term deficits. The challenge of making social insurance systems financially sustainable is a shared concern, and understanding how each country is addressing these issues can provide valuable lessons for improving the design and sustainability of social insurance systems.

Third, regulatory enforcement is a recurring issue in all three countries. In Bangladesh, Cambodia, and Nepal, the effectiveness of social insurance programmes is undermined by weak enforcement mechanisms. Employers may avoid paying contributions, and workers may be unaware of their entitlements or may not be able to access benefits due to bureaucratic hurdles. This lack of enforcement and monitoring leads to underutilisation of the benefits and reduced effectiveness of the programmes. All three countries need to strengthen their regulatory frameworks and improve monitoring and enforcement to ensure that social insurance schemes function effectively and provide the intended benefits.

Additionally, comparative analysis highlights the role of political will and institutional capacity in shaping the success or failure of social insurance schemes. Bangladesh, Nepal, and Cambodia have made strides in expanding coverage and improving their systems, but political will and institutional capacity remain key drivers of reform. While the governments of all three countries have expressed interest in improving social security systems, the pace of reform and the ability to implement these reforms effectively vary. Political factors, such as the strength of labour unions, the political influence of employers, and the prioritisation of social insurance in national development agendas, all play a significant role in determining the outcomes of these programmes.

One important feature of the comparative analysis is the different approaches taken by each country in extending coverage to workers in the informal sector. Bangladesh has focused on the expansion of the Employment Injury Insurance scheme to provide some coverage for workers in high-risk industries like the RMG sector. However, the success of this pilot programme remains uncertain, as informal workers in other sectors are left unprotected. Nepal has made some progress by expanding the Social Security Fund to cover more workers, including some from the informal sector, but the coverage remains limited. Cambodia has also faced challenges in extending coverage to informal workers, and its social insurance system is mainly focused on the formal sector. The experience of these countries in reaching out to informal workers offers valuable insights into how developing countries can design more inclusive social insurance systems.

In terms of coverage, all three countries share the challenge of low participation in social insurance schemes, especially in rural and remote areas. In Bangladesh, Nepal, and Cambodia, a significant portion of the population remains excluded from social security programmes due to a combination of factors such as low awareness, lack of access to information, and limited government outreach. Increasing awareness about the benefits of social insurance and ensuring that workers are informed about their rights and entitlements are crucial steps toward improving participation rates.

Another key challenge is the need for better integration of social insurance schemes with other forms of social protection, such as unemployment benefits, maternity leave, and healthcare services. In all three countries, there is a need to create more comprehensive social protection systems that combine social insurance with other forms of support to address the diverse needs of workers. The absence of a coordinated and comprehensive

approach to social protection leaves many workers vulnerable to economic shocks and reduces the effectiveness of individual programmes.

Overall, comparing the social insurance systems in Bangladesh, Nepal, and Cambodia reveals a range of common challenges, including low coverage, financial sustainability issues, and weak enforcement mechanisms. By understanding the features and challenges specific to these countries, policymakers can identify key areas for reform and learn from each other's experiences in improving social insurance systems. While the systems in these countries are still in their nascent stages, the potential for reform and improvement is significant, and with the right political will, institutional capacity, and policy measures, these countries can build more inclusive and sustainable social insurance systems that better protect their workers.

7.6. Role of Export Diversification and FDI for Expansion of Social Insurance: A Comparison between Bangladesh and Cambodia

The hypothesis that export diversification into higher value-added industries and FDI fosters a more favourable environment for social insurance expansion merits careful examination. Bangladesh's export-led growth model, heavily reliant on the RMG sector, contrasts with countries like Cambodia, which have pursued diversification and attracted higher levels of FDI. Analysing this issue through the lenses of institutional political economy and political settlement perspectives highlights how these dynamics influence social insurance expansion and the broader development trajectory.

7.6.1. Institutional Political Economy Perspective

From the Institutional Political Economy perspective, institutions, encompassing formal frameworks such as laws and informal norms, play a pivotal role in shaping economic incentives and constraints. The interplay between export diversification, FDI, and social insurance expansion involves several critical institutional dimensions.

Export Diversification and Institutional Development

Bangladesh's RMG sector has been a cornerstone of its economy, playing a pivotal role in generating substantial employment and export revenue. The sector has thrived by capitalising on its competitive advantage in low-skilled labour and benefiting from preferential trade agreements, particularly with the European Union and North America. This export-led growth model has contributed significantly to the country's economic development, yet it remains heavily reliant on a singular industrial focus. The dominance of the RMG sector has shaped the institutional framework, limiting the incentive to expand social insurance coverage beyond the immediate needs of this workforce.

One of the critical challenges is the socio-political landscape surrounding the RMG workers. Despite their contribution to the economy, RMG workers are often politically fragmented, lacking cohesive representation and bargaining power. This underrepresentation has constrained their ability to advocate for more inclusive social protections, such as unemployment benefits, pension schemes, or health insurance. Moreover, the reliance on

low-wage labour and the absence of significant diversification within the economy have perpetuated a status quo where social insurance remains narrow in scope and coverage.

In contrast, Cambodia offers a compelling comparative case. Over the past two decades, Cambodia has strategically diversified its economic base beyond the garment industry into sectors such as electronics manufacturing, tourism, and agro-processing. This diversification has not only reduced the country's dependence on a single sector but also created a more varied and skilled workforce. The presence of multiple sectors with distinct labour market needs has fostered cross-sectoral institutional reforms, driven by the need to address diverse challenges and ensure equitable development.

The broader economic base in Cambodia has facilitated the establishment of comprehensive social insurance systems, designed to cater to a wider range of industries and worker categories. For instance, social protection initiatives in Cambodia now encompass healthcare, pensions, and workplace safety measures that extend beyond the garment sector to include workers in agriculture, services, and manufacturing.⁷⁸ This approach reflects a recognition that a diverse and dynamic economy requires a more inclusive and adaptable social insurance framework to support its workforce.

Bangladesh, by contrast, faces a critical need to learn from such experiences. The narrow focus on the RMG sector has not only constrained its economic resilience but also limited the scope for institutional reforms that could address broader social vulnerabilities. For Bangladesh to achieve sustainable economic and social progress, it must prioritise diversification in its industrial and economic strategies. Such diversification would not only reduce reliance on a single sector but also create the conditions necessary for institutional reforms that promote inclusive social protection systems, ensuring that the benefits of economic growth are equitably distributed across all sectors of the workforce.

FDI as a Driver of Institutional Change

FDI is widely recognised as a catalyst for institutional development in recipient countries, as it often brings with it not just capital but also higher expectations for governance, labour standards, and social protection. Multinational corporations and foreign investors typically demand greater compliance with international norms and practices, prompting recipient countries to align their labour laws, workplace safety standards, and social welfare systems with global benchmarks. This alignment serves a dual purpose: it reassures foreign investors about the sustainability and predictability of their investments while also benefiting domestic workers through improved protections and working conditions.

Cambodia presents a strong example of how FDI can drive institutional improvements. Over the years, Cambodia has attracted significant FDI, particularly in sectors like electronics manufacturing, agro-processing, and tourism. To remain competitive and appealing to global investors, the Cambodian government has undertaken substantial reforms in areas critical to labour and social welfare. These reforms include stricter enforcement of worker safety

⁷⁸ See ILO (2024)

standards, the introduction of social security systems, and expanded access to healthcare for workers. The government's proactive approach has created a more favourable environment for investors while simultaneously laying the groundwork for a more inclusive and resilient social protection system.

In stark contrast, Bangladesh's economic trajectory in its dominant RMG sector has been shaped by a different set of dynamics. The RMG sector is heavily dominated by domestic investors rather than large-scale foreign investment. This structure has meant that Bangladesh's industrial policies and labour standards have been influenced more by local business interests than by external pressures to meet international standards. Without the significant involvement of foreign investors, there has been less impetus to align labour laws and social protections with global norms, resulting in weaker institutional frameworks for social insurance and worker protections.

Furthermore, Bangladesh attracts considerably less FDI than Cambodia, both in absolute terms and as a share of GDP.⁷⁹ This disparity is significant because lower FDI inflows translate to fewer opportunities for the kind of institutional modernisation that often accompanies foreign investment. In Cambodia, FDI has created a ripple effect, influencing not only economic practices but also social and labour policies. In Bangladesh, the limited presence of foreign investors has meant that reforms in areas such as worker safety, social insurance, and healthcare have largely been driven by domestic factors, which are often slower and less comprehensive.

The implications of these differences are profound for social insurance development in Bangladesh. Without substantial FDI to drive external pressure for reform, the momentum for comprehensive institutional alignment remains weak. Domestic investors in the RMG sector often prioritise cost competitiveness over investments in worker welfare, and the political fragmentation among workers further diminishes the demand for stronger social protections. As a result, Bangladesh's institutional framework for social insurance remains underdeveloped, leaving significant portions of the workforce without access to basic protections such as pensions, unemployment benefits, and healthcare.

To address these challenges, Bangladesh must explore pathways to attract more FDI while simultaneously strengthening domestic institutions. This could involve creating incentives for foreign investors to enter new and diverse sectors of the economy, fostering competition that encourages better labour practices. Additionally, the government could leverage its existing export relationships and preferential trade agreements to push for reforms that align labour standards with global expectations. By doing so, Bangladesh can create a virtuous cycle where FDI serves as a driver for institutional improvements, ultimately strengthening the foundation for social insurance expansion and more inclusive economic development.

⁷⁹ The ratio of FDI to GDP in Bangladesh is less than 1%, while in Cambodia, it is more than 12%. In 2023, Bangladesh received only 1.4 billion USD in FDI, whereas Cambodia received 4 billion USD.

Revenue Generation and Fiscal Space

Export diversification and FDI are critical to building a resilient and sustainable economy, as they contribute to a broader and more stable revenue base. A diversified export portfolio reduces dependency on a single industry, mitigating the risks associated with external shocks such as fluctuating demand, price volatility, or trade policy changes. Similarly, robust FDI inflows not only bring much-needed capital but also spur economic growth, foster technology transfer, and expand employment opportunities. Together, these factors enhance government revenue streams, enabling countries to allocate resources toward social insurance schemes that protect vulnerable populations and promote inclusive development.

Cambodia offers an illustrative example of how export diversification and FDI can drive social welfare initiatives. Over the past two decades, Cambodia has strategically expanded its export base beyond the garment sector to include electronics, agro-processing, and tourism. This diversification has reduced its reliance on a single sector, ensuring more stable export earnings and increasing resilience to global economic fluctuations. Moreover, significant FDI inflows, particularly from countries like China, Japan, and South Korea, have further bolstered Cambodia's economic landscape. The influx of foreign investment has not only created jobs but also strengthened the government's fiscal capacity by broadening the tax base.

This broader and more stable revenue base has enabled the Cambodian government to invest in social welfare programs. For example, the expansion of social security schemes and healthcare coverage reflects the government's ability to channel resources into initiatives that improve the well-being of its citizens. By leveraging the fiscal space created through export diversification and FDI, Cambodia has taken significant steps toward building a more inclusive and equitable social protection system, addressing the needs of both urban and rural populations.⁸⁰

In contrast, Bangladesh faces considerable challenges in this regard. The country's economy remains heavily reliant on the RMG sector, which accounts for the lion's share of export earnings. This lack of export diversification makes Bangladesh vulnerable to sector-specific risks, such as changing trade preferences, rising competition from other low-cost producers, and shifts in consumer demand. Moreover, Bangladesh attracts relatively low levels of FDI compared to regional peers like Cambodia and Vietnam, further limiting the country's ability to broaden its economic base and generate additional revenue.

One of the most significant constraints to Bangladesh's ability to invest in robust social insurance programs is its persistently low tax-to-GDP ratio, which has hovered around 7–9% for years—one of the lowest in the world. This low ratio reflects systemic inefficiencies in tax collection, a narrow tax base, and widespread tax evasion. The result is a chronic shortfall in government revenue, which limits the resources available for public investment in social welfare. Consequently, the fiscal space needed to expand social insurance coverage,

⁸⁰ See https://bracupgi.org/wp-content/uploads/2021/07/Re.201820Jan202018_Social20Protection20Report20201720English.pdf

including pensions, unemployment benefits, and universal healthcare, remains severely constrained.

The fiscal challenges are further compounded by the country's reliance on concessional foreign aid and remittances to support public expenditures. While these inflows provide temporary relief, they are not a sustainable solution to address the structural issues within Bangladesh's public finance system. Without a diversified economic base or significant FDI inflows to stimulate growth and expand revenue, the government struggles to create long-term solutions for funding comprehensive social insurance programs.

To address these challenges, Bangladesh must prioritise export diversification and actively seek to attract higher levels of FDI. Policies that promote the growth of new sectors, such as information technology, pharmaceuticals, agro-processing, and light engineering, could reduce the economy's dependence on the RMG sector and create a more stable revenue base. Simultaneously, reforming the tax system to enhance collection efficiency, widen the tax base, and encourage compliance is critical to increasing the tax-to-GDP ratio.

By adopting these measures, Bangladesh can create the fiscal space necessary to invest in social insurance schemes, ensuring that economic growth translates into tangible benefits for its citizens. A diversified economy and increased FDI would not only strengthen the country's resilience to external shocks but also lay the groundwork for a more inclusive and sustainable development trajectory.

7.6.2. Political Settlement Perspective

The political settlement framework examines how power distribution among elites influences policy outcomes. Comparing Bangladesh and Cambodia reveals how political settlements shape pathways for social insurance expansion.

Sectoral Bargaining Power

In Bangladesh, the overwhelming dominance of the RMG sector has resulted in a highly centralised economic power structure. This concentration of power resides primarily among a narrow elite consisting of factory owners, many of whom wield significant influence over policymakers and government institutions. These factory owners often have close ties to political leaders, enabling them to shape policies that align with their economic interests. This dynamic creates a business environment where the primary objective is to maintain low production costs to remain competitive in global markets. Consequently, there is little incentive to invest in broader social insurance programs that could increase labour costs, as this would threaten the low-cost production model that underpins Bangladesh's export success.

The prioritisation of low production costs has significant implications for workers and the overall development of the social protection system. Labour unions in Bangladesh, which could advocate for stronger social insurance provisions, face numerous challenges, including legal restrictions, limited resources, and political fragmentation. These constraints weaken

their ability to negotiate effectively with employers or influence policy decisions. The absence of strong collective bargaining mechanisms further entrenches the dominance of the RMG sector's elite, leaving the majority of workers—particularly those in precarious or informal employment—without access to basic protections such as healthcare, pensions, or unemployment benefits.

In contrast, Cambodia offers a different trajectory, driven in part by its economic diversification. Over the past two decades, Cambodia has expanded its economic base beyond the garment sector to include industries such as electronics manufacturing, tourism, and agro-processing. This diversification has not only reduced the country's dependence on a single sector but also transformed its economic power structures. Unlike Bangladesh, where the dominance of the RMG sector centralises influence among a narrow elite, Cambodia's diversified economy has led to a more diffuse distribution of power among various stakeholders (ADB, 2024).⁸¹

The presence of multiple industries with distinct labour market dynamics has created space for broader negotiations among stakeholders, including employers, trade unions, and government representatives. These diverse power structures enable more inclusive dialogue on labour and social protection issues, fostering incremental expansions in social insurance coverage. For instance, the Cambodian government, under pressure from both domestic and international actors, has introduced reforms to improve worker protections, such as the establishment of social security schemes and healthcare benefits that extend beyond the garment sector to other industries.

Trade unions in Cambodia have played a pivotal role in driving these changes. With a more diversified economic base, unions have been able to organise across sectors, amplifying their influence and ensuring that workers' voices are heard in policy discussions. The involvement of international organisations and foreign investors has further contributed to this process, as they often advocate for labour standards and social protections that align with global best practices. These dynamics have created a virtuous cycle, where economic diversification supports more equitable power structures, which, in turn, facilitate the development of comprehensive social insurance systems.

For Bangladesh, the lessons from Cambodia are clear. The heavy reliance on the RMG sector not only concentrates economic power but also limits the scope for institutional reforms that could benefit workers. To break this cycle, Bangladesh must prioritise economic diversification, fostering the growth of new sectors such as information technology, pharmaceuticals, and agro-processing. By reducing the dominance of the RMG sector, Bangladesh could create a more balanced power structure that enables broader stakeholder participation in policymaking processes.

Simultaneously, strengthening labour unions and fostering tripartite negotiations among employers, workers, and the government are essential steps toward creating an environment conducive to social insurance expansion. International actors, such as

⁸¹ <https://www.adb.org/publications/cambodia-economic-diversification?form=MG0AV3>

development organizations and trade partners, could also play a crucial role by encouraging reforms that promote labour rights and social protection.

Ultimately, Bangladesh's path to a more inclusive and equitable social protection system lies in rebalancing its economic and political structures. By diversifying its economy and fostering broader stakeholder engagement, the country can create the conditions necessary for sustainable social insurance reforms, ensuring that economic growth translates into meaningful improvements in workers' lives.

State-Society Relations

Despite their significant contribution, RMG workers face substantial barriers to collective bargaining. One of the primary challenges is the fragmentation of labour unions within the sector. Unlike in other industries or countries with more robust labour movements, Bangladesh's RMG sector is characterised by a multitude of small, often competing unions that struggle to present a unified voice.⁸² In 2018, the percentage share of the workforce being members of labour unions in Bangladesh was only 11.8% compared to 30.6% in Nepal.⁸³ This fragmentation dilutes the power of workers and weakens their negotiating position. Instead of a strong, cohesive labour force that can push for comprehensive reforms, workers are divided, with each union representing a limited subset of the workforce and struggling to achieve shared goals.

Furthermore, state-business collusion in Bangladesh exacerbates the situation. Many factory owners have close ties with government officials, and there is often a lack of political will to support labour rights or strengthen social protections in the RMG sector.⁸⁴ This collusion creates an environment in which both the state and the business elite are resistant to reforms that might increase labour costs, such as expanded social insurance coverage or better workplace conditions. Labour laws are often poorly enforced, and workers are left to contend with unsafe working conditions, low wages, and the absence of meaningful social protections such as health insurance, unemployment benefits, or retirement savings. The political influence of factory owners and their ability to stifle labour reforms means that the government often fails to prioritise the needs of RMG workers, perpetuating the status quo and limiting the capacity for substantial change.⁸⁵

In contrast, Cambodia's more diversified economy has enabled a different dynamic, one in which the power structures are less centralised around a single dominant sector. Cambodia has made significant strides in diversifying its industrial base beyond the garment sector, with sectors such as electronics manufacturing, tourism, and agro-processing now contributing substantially to its economy. This diversification has brought with it greater

⁸² See <https://www.ilo.org/media/371121/download>

⁸³ Source: ILOSTAT. There is no recent data for Cambodia.

⁸⁴ See <https://www.thedailystar.net/roundtables/news/social-protection-rmg-workers-bangladesh-3745686>

⁸⁵ Raihan (2024) argues that there has been a political settlement in Bangladesh regarding the management of the labour regime in the RMG Sector in the form of keeping minimum wage low, poor working conditions and suppressing labour rights.

economic resilience and the opportunity to build more inclusive stakeholder coalitions, which in turn has facilitated broader social and labour reforms.⁸⁶

The role of FDI has been crucial in Cambodia's transformation. As Cambodia attracted substantial FDI, especially from countries like China, Japan, and South Korea, foreign investors brought with them not only capital but also a demand for higher labour standards and better working conditions. These investors often have strict corporate social responsibility (CSR) standards and are more inclined to push for stronger labour protections, including enhanced social insurance coverage for workers. At the same time, Cambodia's trade unions, civil society organizations, and international entities such as the ILO have formed stronger alliances, amplifying their collective voice in advocating for labour reforms.⁸⁷

The presence of a more diversified economy has also helped facilitate collaboration among these various groups. With a broader range of sectors contributing to the economy, the interests of workers have become more diversified, and the demands for social protection measures have expanded. Civil society organizations have been able to work across different industries, and trade unions have built stronger alliances with both domestic and international actors to lobby for policy changes. These coalitions have led to tangible improvements in worker protections, including the expansion of social security schemes, healthcare coverage, and worker safety regulations. For example, in Cambodia, the introduction of a comprehensive social security system that covers a wide range of workers, including those in the garment sector, is an outcome of these collaborative efforts.

International entities have played a pivotal role in Cambodia's progress by providing technical expertise, financial support, and advocacy for labour rights. This support has strengthened the capacity of local civil society organizations and trade unions to negotiate with both the government and employers, pushing for the implementation of labour laws that adhere to international standards. These collaborations have not only improved the social protection measures available to workers but also fostered a more inclusive, transparent, and accountable approach to policymaking.

In Bangladesh, the absence of such broad-based alliances has hindered the development of comprehensive social insurance systems. The lack of a unified labour movement, combined with state-business collusion, means that RMG workers are often left without meaningful representation in policy discussions. The fragmented nature of labour unions makes it difficult to mount effective advocacy campaigns for expanded social protections, while the government's close ties to the business elite further stymie any efforts for reform. As a result, RMG workers continue to face precarious working conditions and lack access to basic social protections, such as pensions, unemployment benefits, or healthcare coverage.

⁸⁶ See <https://www.adb.org/sites/default/files/publication/28965/csb-cam.pdf>

⁸⁷ See https://www.socialprotectionfloorscoalition.org/wp-content/uploads/2023/11/2023-Bridging-the-Divides_GCSPF_SPPFM-learning-report.pdf

To address these challenges, Bangladesh needs to strengthen its labour movement and build more cohesive and unified trade unions that can effectively represent the interests of workers. This could be achieved through reforms that facilitate unionization, protect workers' rights to organize and promote collective bargaining. Additionally, fostering stronger coalitions among workers, civil society organizations, and international stakeholders could create the necessary political pressure to push for comprehensive reforms in social insurance and labour rights. Drawing lessons from Cambodia's experience, Bangladesh could also leverage its potential to attract more FDI by implementing policies that align with international labour standards, thereby encouraging greater collaboration between employers, unions, and the government.

Ultimately, a shift toward more inclusive and collaborative decision-making processes, supported by a diversified economy and stronger international alliances, will be essential for Bangladesh to overcome the barriers to collective bargaining and pave the way for the expansion of social insurance coverage. This, in turn, would enhance the economic security and well-being of the country's vast workforce, particularly in the RMG sector, which remains crucial to the country's economic future.

Political Legitimacy and Accountability

In Bangladesh, the political legitimacy of successive governments has historically been deeply intertwined with the performance of the RMG sector. The sector has long been a cornerstone of Bangladesh's economic growth, driving substantial export earnings, creating millions of jobs, and serving as the engine of industrialization. However, this focus on export-driven growth, which has brought significant economic benefits, has often come at the expense of broader social policies, including labour rights and social protection. The government's prioritization of economic stability—largely driven by the RMG sector—has led to a political settlement in which the interests of the business elite and the demands of global markets are given precedence over the well-being of workers.

This political dynamic has fostered an environment where labour rights, particularly those of workers in the RMG sector, are frequently sidelined. The government's close relationship with RMG factory owners, many of whom are influential political and economic players, has limited the scope for meaningful labour reforms. Social protection measures, such as healthcare, pensions, unemployment benefits, and workers' compensation, have remained underdeveloped, as increasing labour costs through such initiatives is often seen as a threat to the sector's competitiveness. Rather than pushing for comprehensive social insurance systems, the focus has largely been on maintaining low production costs, ensuring high export output, and preserving the country's position as one of the world's leading garment exporters.

The political legitimacy derived from the RMG sector's success has led to a narrow policy focus that emphasizes economic stability and growth over social welfare and inclusivity. While the RMG sector has undoubtedly contributed to poverty alleviation and economic development, its reliance on low wages and precarious working conditions has perpetuated inequalities, leaving large portions of the workforce vulnerable and without access to social

protections. Consequently, the lack of institutional incentives to expand social insurance programs has hindered the development of a more inclusive welfare state in Bangladesh.

In stark contrast, Cambodia has developed a political settlement that increasingly emphasizes the importance of reform in maintaining legitimacy, not only among domestic political actors but also among international stakeholders. Cambodia's approach to governance has evolved to recognize that the sustainability of its economic growth and political stability depends on addressing the broader needs of its population, including the protection of labour rights and the expansion of social welfare systems. Unlike Bangladesh, where political legitimacy has been largely dependent on a single sector, Cambodia's political leaders have sought to build a more diversified base of support by prioritizing reforms that respond to the needs of various economic actors.⁸⁸

Cambodia's government has recognized that social insurance and protection systems play a pivotal role in the country's broader development strategies. By integrating these reforms, the government aims to achieve several key objectives: First, social insurance reforms are designed to provide financial security and stability to workers, particularly in times of illness, unemployment, or retirement. These measures include expanding social security systems, which cover various benefits such as pensions, healthcare, and unemployment insurance. Second, expanding access to healthcare is a fundamental aspect of social protection. By improving healthcare services and making them more accessible to all citizens, the government aims to ensure that people can lead healthier lives, which in turn contributes to a more productive workforce. Third, implementing and enforcing worker safety regulations is crucial for protecting employees from workplace hazards. These regulations help create safer working environments, reducing the risk of accidents and injuries. Fourth, by providing a safety net for workers and their families, social insurance reforms contribute to social stability. When people feel secure and supported, they are more likely to trust and support the government, leading to greater political stability. Sixth, the government views social protections as integral to the broader economic development agenda. By ensuring that all segments of society benefit from economic growth, the government aims to promote social cohesion and reduce inequality. Seventh, investing in social protection systems is seen as an investment in human capital. When people have access to healthcare, education, and financial security, they are better able to contribute to the economy and society. Finally, the integration of social protections into development strategies aligns with the goal of achieving sustainable development. By valuing human capital and social cohesion, the government aims to create a more resilient and sustainable economy. In sum, these social protections are not viewed as separate from economic development but rather as essential components of a comprehensive and inclusive development strategy.⁸⁹

Moreover, Cambodia's political leadership understands the need to maintain legitimacy in the eyes of a diverse range of stakeholders, including domestic workers, civil society organizations, foreign investors, and international institutions. The government has actively

⁸⁸ See

https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_emp/documents/publication/wcms_372676.pdf

⁸⁹ See <https://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=24880>

engaged with these groups to create policies that reflect both domestic needs and international expectations. This has been particularly evident in the realm of labour rights and social protection, where Cambodia has made significant strides in improving worker protections and expanding access to social insurance. International organizations, such as the ILO, have played a pivotal role in supporting these reforms by providing technical expertise, guidance, and funding, thereby reinforcing the government's commitment to labour rights and social welfare.

The growing emphasis on inclusive growth in Cambodia has also been driven by the country's increasing integration into the global economy. As Cambodia attracts more FDI and becomes a hub for international manufacturing, there is a clear recognition that meeting global labour standards and ensuring social protection for workers is critical to maintaining Cambodia's competitive edge in the global market. Foreign investors, particularly those from developed countries, often have high standards for corporate social responsibility (CSR) and demand that host countries implement strong labour laws and provide adequate social protections. Cambodia's alignment with these expectations has not only enhanced its attractiveness as an investment destination but has also contributed to its political legitimacy, as the government is seen as responsive to the needs of both domestic and international actors.

The integration of social insurance into Cambodia's development strategy has had tangible benefits for workers, particularly in sectors such as textiles, garments, and electronics. Social security schemes, which include health insurance, pensions, and worker compensation, have been gradually expanded to cover a wider range of workers, including those in the informal economy. These efforts have helped reduce poverty, improve worker well-being, and create a more inclusive social safety net. The government's commitment to these reforms reflects an understanding that political legitimacy is not solely derived from economic growth but also from the ability to ensure that the benefits of growth are shared equitably among all segments of society.⁹⁰

For Bangladesh, Cambodia's experience offers important lessons in terms of balancing economic growth with social welfare. While Bangladesh has enjoyed significant success in terms of export-driven growth, particularly through its RMG sector, the challenge lies in diversifying the economy and ensuring that growth benefits all citizens, not just the business elite. Expanding social insurance and labour protections should be viewed as integral to long-term economic stability and political legitimacy, rather than as threats to competitiveness.

To achieve this, Bangladesh needs to embrace a more inclusive approach to development, one that integrates social protection into its broader economic strategies. This could involve increasing the role of international stakeholders, such as development organizations, in pushing for labour reforms, while also fostering greater collaboration between employers, workers, and the government. By doing so, Bangladesh can build a more resilient and

⁹⁰ See <https://faolex.fao.org/docs/pdf/cam145560.pdf>

equitable economy that ensures the benefits of growth are shared by all, while also enhancing the country's political legitimacy on both the domestic and international stages.

Ultimately, the integration of social insurance into broader development strategies, as seen in Cambodia, represents a forward-thinking approach to governance. It demonstrates a commitment to inclusive growth and sustainable development that prioritizes the welfare of workers and the broader population, ensuring that economic success translates into tangible benefits for society as a whole. Bangladesh, by shifting its political settlement to reflect these values, could create a more inclusive and equitable future for its citizens, enhancing both social cohesion and political stability in the process.

7.7. Roles of Ideologies and Autonomy of Political Elites in Social Insurance Expansion

The role of ideological commitments, such as human rights and welfare state ideologies, alongside the autonomy of political elites vis-à-vis business elites, plays a fundamental role in shaping the development and expansion of social insurance systems. In countries where social protection policies are underdeveloped or influenced by economic power dynamics, these factors become even more critical. The relationship between political elites and business elites, in particular, is a powerful determinant of whether social insurance systems are inclusive, equitable, and sustainable. Understanding how these forces intersect helps to explain the variations in social protection outcomes across countries. In this context, a comparison between Bangladesh, Cambodia, and Nepal offers important insights into how ideological frameworks and elite relationships influence social insurance policy development.

In Bangladesh, the ideological commitment to a welfare state remains relatively underdeveloped, and this has significant implications for the expansion of social insurance systems. While there have been some efforts to improve social protection, such as the introduction of health insurance and pension schemes, these initiatives remain limited in scope and accessibility. The concept of the welfare state has not been deeply ingrained in the country's political culture, and as a result, policies related to social insurance often lack the robust institutional support necessary for widespread implementation. One of the key reasons for this underdevelopment is the overwhelming influence of business elites, particularly those in the RMG industry, who maintain considerable power over policy decisions. In Bangladesh, the presence of state capture, in which political elites are heavily influenced by or aligned with business interests, leads to policies that prioritize economic growth and stability over social welfare. These elites, driven by crony capitalism and the need to maintain low labour costs, often resist the expansion of social protection systems that could increase their operating costs or reduce their control over the labour market. This results in fragmented social insurance policies that are more reactive to external pressures from international organizations rather than driven by a genuine internal commitment to workers' rights and social justice. The limited autonomy of political elites in Bangladesh, who are often beholden to business elites, further exacerbates this issue, as political decisions tend to favour business groups over the welfare of the broader population, impeding the possibility of comprehensive social insurance reforms.

Cambodia, on the other hand, offers a more nuanced picture in terms of ideological commitment and political autonomy. While Cambodia has historically lacked a strong, domestically-driven welfare state ideology, the country has nonetheless made significant strides in certain areas of social protection, particularly in labour rights and social insurance. The Cambodian government has implemented policies to expand social insurance, especially in the garment sector, where labour protection and benefits for workers have gradually improved. These efforts, while not yet universal or comprehensive, reflect a more pragmatic approach to social welfare, one that is often influenced by international organizations, donors, and the need to adhere to global labour standards. Cambodia's success in expanding social protection for workers can be attributed to this practical approach, which balances the need for worker welfare with the economic realities of a growing industrial sector. The Cambodian government has recognized the importance of aligning its social protection policies with international norms, which has encouraged the gradual development of social insurance systems. Nevertheless, the influence of business elites in key sectors such as agriculture and manufacturing continues to play a significant role in shaping policy decisions. While the Cambodian government may not have complete autonomy from business elites, it has managed to navigate these relationships effectively, expanding social protection in a way that benefits workers while maintaining economic stability. This degree of flexibility allows Cambodia to move forward with social insurance initiatives despite ongoing challenges related to political capture.

In Nepal, the role of ideological commitment and political autonomy in social insurance expansion is perhaps most evident. Following the democratic transition and the adoption of the 2015 constitution, Nepal has demonstrated a stronger ideological commitment to human rights, social justice, and social protection. The political elites in Nepal have increasingly placed social welfare at the forefront of their policy agendas, driven by a clearer ideological foundation that prioritizes the rights and welfare of workers and marginalized groups. This ideological commitment has led to the expansion of social insurance programs, particularly in areas such as labour migration, health insurance, and rural pensions. Nepal's commitment to human rights and social welfare, as enshrined in its constitution, has provided a strong legal and political basis for the development of more inclusive social insurance policies. Despite these positive developments, Nepal still faces challenges in fully realizing its social protection goals, particularly due to the influence of business elites in key sectors like construction and agriculture. In some cases, business elites can exert pressure to prevent policies that would raise labour costs or challenge existing power structures. However, the greater political autonomy of Nepal's political elites, especially since the country's transition to a federal republic and labour unions' strong influence on political parties, have allowed for more progressive reforms.⁹¹ While the political landscape remains complex, Nepal's commitment to expanding social insurance reflects the positive impact of a stronger ideological foundation and greater autonomy from entrenched business interests.

⁹¹ Nepal has the highest trade union density of 30.1% in South Asia. Politics and trade union activities became synonymous in Nepal. Trade unionism was a parallel track to the establishment of political parties and multi-party democracy. See:

https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@ed_dialogue/@act_emp/documents/publication/wcms_711811.pdf

In summary, the experiences of Bangladesh, Cambodia, and Nepal underscore the critical importance of ideological commitment to social welfare and the autonomy of political elites in shaping social insurance policies. In Bangladesh, the dominance of business elites and state capture by economic powers has significantly hindered the development of comprehensive social insurance systems, limiting their scope and effectiveness. In Cambodia, although business elites continue to exert influence over political decisions, the country has managed to implement gradual improvements in social protection, particularly through international support and alignment with global labour standards. Cambodia's experience suggests that even in the presence of political-business elite relationships, social protection can be expanded through pragmatic, externally supported initiatives. Finally, Nepal's experience highlights the importance of a strong ideological commitment to social justice, human rights, and welfare state principles. The country's political elites, while still facing challenges from business interests, have shown greater political autonomy and a clearer commitment to expanding social insurance, which has led to more robust reforms. Overall, the interplay between ideological commitments and political autonomy plays a pivotal role in determining the success and scope of social insurance expansion in these countries. The cases of Bangladesh, Cambodia, and Nepal illustrate how these factors can shape the trajectory of social protection policies, with each country navigating the complexities of business influence, political autonomy, and ideological commitment in different ways.

7.8. Summary – Crucial Differences in the Political Economy of Social Insurance Development Among Bangladesh, Cambodia and Nepal

Unlike in Bangladesh, the Cambodian government demonstrates a clear and strategic interest in social insurance, viewing it as an essential tool for maintaining political stability within an authoritarian framework. Cambodia's ruling elites recognize that while their governance model relies heavily on coercion and political control, they must also offer tangible benefits—such as social protection—to appease the population and maintain legitimacy. This approach aligns with a broader pattern observed in various authoritarian regimes, where social insurance and welfare programs serve as compensatory mechanisms that help mitigate discontent arising from political repression. The Cambodian government's commitment to social protection is therefore not merely a response to external pressures but an internally driven strategy to balance authoritarian governance with performance legitimacy.

This political interest in social insurance has enabled international development organizations such as the German development agency GIZ and the ILO to work effectively with the Cambodian government in reforming and expanding social insurance schemes over the past few years. These organizations have played a key role in supporting the design and implementation of reforms aimed at improving inclusion, reducing exclusion biases, and curbing corruption. Cambodia's relative success in addressing these common challenges suggests that the government views social insurance not just as a policy tool, but as a fundamental aspect of its broader development strategy.

A striking contrast between Cambodia and Bangladesh lies in the role of employers' organizations in shaping social insurance policies. In Bangladesh, any discussion on social insurance is heavily influenced by the BGMEA, a powerful lobby representing factory owners in the RMG sector. The BGMEA wields significant political clout, often shaping labour policies to minimize costs for business owners, which in turn limits the scope for meaningful social insurance reforms. GIZ and other international organizations in Bangladesh must actively engage with the BGMEA before undertaking any initiatives in the sector. The influence of the BGMEA underscores the entrenched link between business and political elites in Bangladesh, where economic policy decisions are often shaped by the interests of domestic industrialists.

By contrast, in Cambodia, employers' organizations play a far more marginal role in the political economy of social insurance. The absence of a strong domestic business lobby means that international development agencies such as GIZ primarily engage with the government rather than employers when designing and implementing social insurance programs. A key reason for this difference is Cambodia's high rate of foreign direct investment and the fact that a vast majority of export-oriented factories are owned by foreign investors. Unlike Bangladesh, where domestic factory owners form a powerful political bloc, Cambodia's business elite is largely foreign, reducing their leverage over policymaking. As a result, the government is able to craft social insurance policies that are not solely designed to serve export-oriented industries but are instead structured to cover the broader formal sector, including both domestic and foreign enterprises.

Despite similarities in the political influence of the RMG sector in both countries, the Cambodian government's primary allegiance appears to be to the workforce rather than business owners. This reflects a crucial difference in the political settlements of the two countries. In Cambodia, performance legitimacy plays a central role in governance, meaning that the ruling party must credibly demonstrate its ability to improve living conditions for the general population. This is achieved through an export-led and diversification-oriented growth strategy that prioritizes human capital development. The Cambodian government views social insurance as an integral part of this strategy, alongside ambitious Technical and Vocational Education and Training (TVET) programs that aim to equip workers with skills necessary for economic diversification.

The ideological dimension of this approach is also notable. Cambodian elites have embraced an 'ASEAN mindset,' aspiring to follow the developmental trajectories of more successful Southeast Asian economies. This aspiration has reinforced the perceived necessity of investing in human capital, including the expansion of social insurance. The government's focus on social protection is not just about immediate political stability but also about laying the groundwork for long-term economic transformation. Unlike Bangladesh, where the political economy is heavily skewed toward protecting the profit interests of domestic industrialists, Cambodia prioritizes broader economic development goals. While the country still needs to maintain an attractive business climate for FDI, the weaker ties between business and political elites make it easier for the government to implement worker-centric policies.

Another key factor shaping Cambodia's social insurance trajectory is the country's recent political history. The 2013 general election was a turning point, as the opposition came close to winning by running on a pro-labour platform. In response, the ruling party not only intensified its crackdown on the opposition but also co-opted key elements of its pro-worker agenda. This political recalibration further strengthened the momentum for social insurance expansion, as the government sought to consolidate support among workers through tangible policy commitments. In contrast, Bangladesh's political settlement lacks a comparable moment of electoral pressure that could push ruling elites toward labour-friendly reforms. Instead, successive governments in Bangladesh have prioritized maintaining a low-cost labour model to sustain export competitiveness, often at the expense of workers' rights and social protection.

Nepal presents yet another contrast, as its political settlement is characterized by a broad elite consensus on a social democratic agenda. Unlike in Bangladesh, where trade unions are fragmented and lack significant influence over major political parties, Nepal has a highly unionized labour movement with strong ties to national politics. The three major trade unions in Nepal are affiliated with the country's three largest political parties, ensuring that labour interests are well-represented in policymaking. Many political leaders in Nepal have backgrounds in trade union activism, reinforcing the political salience of social insurance. This union-influenced elite consensus creates a conducive environment for social protection development, making social insurance policies a core component of Nepal's economic and social governance framework.

The comparative analysis of Bangladesh, Cambodia, and Nepal highlights a critical insight: in both Cambodia and Nepal, the political settlement itself is conducive to the development of social insurance. While Cambodia's approach is rooted in an authoritarian performance legitimacy model akin to the Southeast Asian developmental state, Nepal follows a more traditional social democratic model where labour representation is deeply embedded in national politics. In both cases, there are strong internal incentives for the ruling elite to support social insurance programmes for low-skilled workers. This stands in stark contrast to Bangladesh, where there is no equivalent internal pressure driving social insurance expansion. As a result, any impetus for reform in Bangladesh must come from external actors such as development organizations and, to a lesser extent, international buyers.

From a political settlement perspective, this raises a fundamental challenge for development organizations working in Bangladesh. Sustainable institutional change is difficult to achieve if it is not aligned with the prevailing political settlement. If social insurance reforms do not align with elite interests, they risk being short-lived or ineffective. This suggests that external actors must ensure that the pressures that initially drive social insurance interventions are sustained over time. The conventional donor approach of implementing reforms through short-term, three-to-four-year project cycles is unlikely to yield lasting results unless external advocacy and financial support are maintained beyond the project's duration. A key lesson from political settlement analysis is that for social insurance policies to take root in Bangladesh, external stakeholders must remain engaged in the long term, continually reinforcing the need for reform through sustained pressure and incentives.

In summary, the differing political settlements in Cambodia, Nepal, and Bangladesh shape the feasibility and trajectory of social insurance reforms in each country. While Cambodia and Nepal have internal political dynamics that favour social protection expansion, Bangladesh lacks similar incentives. This underscores the need for external actors to play a more active and sustained role in advocating for social insurance in Bangladesh, recognizing that institutionalizing such reforms requires ongoing engagement beyond the typical short-term development project cycle.

8. The Gender-sensitivity of the Studied Social Insurance Regimes

8.1. Bangladesh

Female workers constitute the majority of the workforce in the RMG sector in Bangladesh, often celebrated as the backbone of its success. Despite their pivotal role, female workers face numerous challenges, including precarious working conditions, limited social protections, and gender-specific vulnerabilities. This section examines the gender dimensions of social insurance schemes in Bangladesh's RMG sector, analyzing the extent to which these schemes address or overlook the unique needs of female workers.

8.1.1. The Context of Female Workers in the RMG Sector

Female workers in Bangladesh's RMG sector often come from low-income, rural backgrounds, driven by economic necessity to seek employment in urban garment factories. They are employed in roles characterized by low wages, long working hours, and minimal job security. Though in early years, women constituted around 80% of the workforce in the RMG sector, in recent decades it has come down to around 54%, many of whom earn wages below the national average.⁹²

These women frequently face a range of gendered challenges, including workplace harassment, inadequate maternity benefits, and limited access to healthcare services tailored to their specific needs. A study conducted by ActionAid found that 80% of female garment workers in Bangladesh have experienced some form of workplace harassment.⁹³ Additionally, many suffer from occupational health issues such as repetitive strain injuries and chronic fatigue due to the physically demanding nature of their work.

Cultural and social norms further exacerbate their plight, as these norms often discourage women from voicing grievances or seeking redress, leaving many vulnerable to exploitation and abuse. Despite legal provisions, only a few female workers are aware of their rights and benefits under existing social insurance schemes.⁹⁴

8.1.2. Gender-Specific Dimensions of Social Insurance in the RMG Sector

Social insurance schemes in Bangladesh encompass a range of provisions, including health insurance in a limited number of factories⁹⁵, maternity benefits, and compensation for workplace injuries. However, these schemes are often limited, fragmented, underfunded, and poorly implemented. The formal sector's reliance on voluntary compliance by employers further undermines the efficacy of these schemes, particularly for female workers

⁹² See the 2023 BRAC University study commissioned by GIZ: roughly 54%. <https://etibd.org/wp-content/uploads/2023/03/ResearchReport-GIZ-ETI-BRACU.pdf>

⁹³ <https://actionaid.org/news/2019/80-garment-workers-bangladesh-have-experienced-or-witnessed-sexual-violence-and>

⁹⁴ <https://www.thedailystar.net/roundtables/news/social-protection-rmg-workers-bangladesh-3745686>

⁹⁵ See: "Health insurance brings smile to RMG workers": <https://www.thedailystar.net/business/news/health-insurance-brings-smile-rmg-workers-1674616>

who are less likely to be unionized or aware of their rights. Gender-specific dimensions of social insurance in the RMG sector in Bangladesh include the following:

- **Maternity Benefits:** The Bangladesh Labour Act mandates paid maternity leave of 16 weeks, which is a critical provision for female workers. However, enforcement is inconsistent, with studies indicating that many female workers are unable to take their full maternity leave due to employer non-compliance.⁹⁶ Contractual employment practices further exclude many women from claiming these benefits. Additionally, there is a lack of support for postnatal care or facilities such as workplace childcare, which are essential for working mothers.
- **Health Insurance:** Health insurance schemes in the RMG sector are often limited to some factories for basic medical care and do not adequately address women's reproductive health needs.⁹⁷ For instance, a study revealed that approximately 80% of female garment workers suffer from anaemia, a condition that remains largely unaddressed by current health provisions.⁹⁸ Gender-sensitive health interventions, such as gynaecological care and counselling services, are rarely incorporated into existing schemes.
- **Workplace Harassment and Safety:** While the EII social insurance schemes include provisions for compensation following workplace injuries, they often overlook the psychological and physical impacts of gender-based violence. There is a lack of comprehensive mechanisms to support victims of workplace harassment, including access to legal aid, counselling, and rehabilitation services.
- **Economic Security and Pensions:** Female workers often face economic insecurity due to irregular employment and lower wages compared to their male counterparts. Social insurance schemes rarely include pension plans or long-term savings mechanisms tailored to the specific needs of women, leaving them vulnerable in old age. Only a very few female garment workers have any form of retirement savings.⁹⁹
- **Awareness and Accessibility:** A significant barrier to the effectiveness of social insurance schemes is the lack of awareness among female workers. Many are unaware of their rights and entitlements under these schemes, and the bureaucratic procedures to access benefits further deter their participation. Literacy and language barriers exacerbate this issue, disproportionately affecting women.

8.2. Nepal and Cambodia

Nepal's social insurance framework is guided by labour laws and the Social Security Fund (SSF) Act of 2017. It includes provisions for health insurance, maternity benefits, workplace safety, and pension schemes. However, the effectiveness of these schemes varies across sectors.

- **Maternity Benefits:** Nepali labour law mandates 14 weeks of paid maternity leave. The SSF provides additional maternity care allowances, ensuring access to prenatal

⁹⁶ https://awajfoundation.org/wp-content/uploads/2019/10/GenderResearchStudy_FINAL.pdf

⁹⁷ See: "Health insurance brings smile to RMG workers": <https://www.thedailystar.net/business/news/health-insurance-brings-smile-rmg-workers-1674616>

⁹⁸ <https://pmc.ncbi.nlm.nih.gov/articles/PMC6627420/>

⁹⁹ <https://lightcastlepartners.com/insights/2024/02/fostering-wellbeing-for-women-in-rmg/>

and postnatal care. Yet, informal sector workers, who constitute a significant portion of female labourers, are often excluded from these benefits.

- **Health Insurance:** Nepal's SSF includes comprehensive health insurance that covers general and reproductive health services. Women's specific health needs, such as gynaecological care and maternity-related complications, are prioritized, reflecting a gender-sensitive approach.
- **Workplace Harassment and Safety:** Legal provisions exist to combat workplace harassment, but enforcement is weak. Women workers often lack access to reporting mechanisms and suffer from inadequate support systems.
- **Economic Security:** Pension schemes under the SSF are gender-neutral but fail to address the unique economic vulnerabilities of women, such as gaps in employment due to caregiving responsibilities.

In Cambodia, the National Social Security Fund (NSSF) governs social insurance schemes, particularly for workers in the garment sector. Cambodia's RMG workforce is predominantly female, necessitating gender-sensitive policies.

- **Maternity Benefits:** Female workers are entitled to 90 days of paid maternity leave, funded through employer contributions to the NSSF. However, many women report difficulties in accessing these benefits due to complex administrative procedures and lack of employer compliance.
- **Health Insurance:** Cambodia's health insurance scheme under the NSSF provides basic healthcare services. While it covers some aspects of reproductive health, the scope is limited, with significant gaps in maternal and child health services.
- **Workplace Harassment and Safety:** Although workplace harassment laws exist, enforcement remains a significant challenge. Women workers often face verbal and physical abuse, with limited access to legal recourse or counselling services.
- **Economic Security:** The NSSF includes provisions for pensions and workplace injury compensation, but these benefits often fail to reach women in precarious employment situations, such as temporary or informal contracts.

The social insurance schemes in countries like Nepal, Cambodia, and Bangladesh, present a complex landscape of benefits and challenges for female workers. While some nations have made significant strides in integrating gender-sensitive policies, others continue to grapple with enforcement and accessibility issues. This analysis delves into the comparative aspects of these social insurance systems, highlighting key provisions such as maternity benefits, health insurance, workplace safety, and economic security. By examining the successes and shortcomings of each country, we can draw valuable lessons to enhance social protection for women in the RMG sector across the region.

- **Maternity Benefits:** While Bangladesh offers 16 weeks of paid maternity leave under the Labour Act, enforcement is inconsistent, particularly in smaller factories. Compared to Nepal and Cambodia, Bangladesh's provision is slightly more generous in terms of duration but lacks comprehensive postnatal support, such as workplace childcare facilities.
- **Health Insurance:** Health insurance in Bangladesh's RMG sector is limited and fragmented. Unlike Nepal, where the SSF prioritizes reproductive health, and Cambodia, which provides basic healthcare under the NSSF, Bangladesh's schemes

largely overlook gender-specific health needs, leaving female workers vulnerable to untreated medical conditions.

- **Workplace Harassment and Safety:** Gender-based violence remains a pressing issue across all three countries. Bangladesh faces similar challenges to Nepal and Cambodia in enforcing anti-harassment laws, with women often lacking access to grievance mechanisms and support services.
- **Economic Security:** Bangladesh's social insurance schemes do not include pension plans or long-term savings mechanisms for RMG workers. In contrast, Nepal's SSF and Cambodia's NSSF provide pension schemes, though they are not adequately tailored to women's specific needs.
- **Awareness and Accessibility:** A common challenge across all three countries is the lack of awareness among female workers regarding their social insurance entitlements. Bureaucratic hurdles and literacy barriers further exacerbate accessibility issues, disproportionately affecting women.

In the complex landscape of social insurance schemes across Nepal, Cambodia, and Bangladesh, female workers in the RMG sector face unique challenges and opportunities. Despite variations in the design and implementation of these programmes, common issues such as weak enforcement, inadequate gender-sensitive policies, exclusion of informal workers, and limited awareness abound. This analysis sheds light on the critical gaps in these systems and offers strategic recommendations to cultivate a more inclusive and supportive environment for women, enhancing both their economic security and overall well-being.

- **Strengthening Enforcement Mechanisms:** Across Nepal, Cambodia, and Bangladesh, weak enforcement undermines the effectiveness of social insurance schemes. Establishing independent monitoring bodies and streamlining administrative processes can improve compliance and accessibility.
- **Incorporating Gender-Sensitive Policies:** Bangladesh can learn from Nepal's emphasis on reproductive health and Cambodia's integration of maternity benefits into social insurance schemes. Introducing comprehensive healthcare services, including gynaecological care and childcare facilities, can significantly benefit female RMG workers.
- **Extending Coverage to Informal Workers:** Many female workers in these countries are excluded from formal social insurance schemes due to their informal employment status. Extending coverage through innovative approaches, such as community-based micro-insurance, can address this gap.
- **Enhancing Awareness and Capacity Building:** Collaborations with NGOs and trade unions can empower women through awareness campaigns and training programmes. These efforts should focus on educating workers about their rights and simplifying access to benefits.
- **Data-Driven Policymaking:** Comprehensive data collection on gender-specific vulnerabilities and social insurance uptake is essential for designing effective policies. Regular impact assessments can ensure that schemes remain relevant and responsive to women's needs.

The comparative analysis of Nepal's, Cambodia's, and Bangladesh's social insurance schemes highlights significant gaps in addressing gender-specific needs. While Nepal and Cambodia

have made strides in integrating maternity benefits and health insurance into their frameworks, challenges in enforcement and accessibility persist. Bangladesh's RMG sector, despite its global prominence, lags behind in providing comprehensive social insurance coverage for its predominantly female workforce. By adopting best practices from its regional counterparts and prioritizing gender-sensitive reforms, Bangladesh can ensure a more inclusive and equitable social insurance system, aligning economic success with social justice.

8.3. Policy Gaps and Recommendations for Bangladesh

The gender-specific dimensions of social insurance schemes in the RMG sector reveal critical gaps in addressing their unique needs, such as inadequate maternity benefits, insufficient health insurance, and lack of awareness about their rights. Addressing these issues through comprehensive legal reforms, gender-sensitive programme designs, and effective capacity-building initiatives is essential to ensure their well-being and empowerment.

- **Strengthening Legal Frameworks and Enforcement:** There is a critical need to bolster the enforcement of existing labour laws, particularly those related to maternity leave, workplace safety, and harassment. To achieve this, independent monitoring bodies should be established, and stringent measures must be put in place to ensure employer accountability. For instance, the government could introduce regular inspections and impose substantial fines for non-compliance, thereby motivating employers to adhere to the law.
- **Gender-Sensitive Programme Design:** Social insurance schemes must be redesigned to incorporate gender-sensitive elements, such as comprehensive maternity care, reproductive health services, and robust support systems for victims of workplace harassment. Allocating resources specifically for gender-specific health interventions, such as free gynaecological check-ups and counselling services, alongside the provision of workplace childcare facilities, can significantly improve women's welfare and productivity. Moreover, creating safe spaces and hotlines for reporting harassment can offer timely support to victims.
- **Awareness and Capacity Building:** Empowering female workers through targeted awareness campaigns and training programmes can greatly enhance their understanding of social insurance schemes and their rights. For example, partnerships between government bodies, NGOs, and trade unions can facilitate workshops and distribute informative materials across the RMG sector. Additionally, incorporating these topics into existing training programmes can ensure a broader reach and sustained impact.
- **Integration of Informal Workers:** A large proportion of female workers in the RMG sector are employed informally, effectively excluding them from formal social insurance schemes. To address this gap, policies must be developed to extend coverage to informal workers through innovative approaches, such as micro-insurance schemes tailored to their needs. Community-based insurance programmes and cooperative models can also be explored to provide a safety net for these vulnerable workers.
- **Data Collection and Research:** Comprehensive and ongoing data collection on the gender-specific needs and challenges faced by female RMG workers is essential for

evidence-based policymaking. Regular surveys, longitudinal studies, and collaborations with academic institutions can help identify gaps and measure the impact of various interventions. Additionally, creating a centralized database can aid in tracking progress and making informed decisions.

- **Policy Gaps and Recommendations:** Addressing the policy gaps in the current social insurance schemes requires a multifaceted approach. Recommendations include revising existing labour laws to incorporate gender-specific provisions, increasing budget allocations for social insurance programmes, and fostering partnerships with international organizations to leverage global best practices. Furthermore, establishing a national task force dedicated to the welfare of female RMG workers can ensure a coordinated and sustained effort towards achieving gender inclusiveness in social insurance.

The gender dimensions of social insurance schemes in Bangladesh's RMG sector reveal significant gaps in addressing the unique needs of female workers. While existing provisions offer a foundation, they fall short of ensuring comprehensive protection and empowerment. Addressing these gaps requires a multidimensional approach, integrating legal reforms, gender-sensitive programme design, and capacity-building initiatives. As female workers continue to drive the RMG sector's success, prioritizing their welfare through inclusive and effective social insurance schemes is both a moral imperative and an economic necessity.

9. Conclusion and Recommendations

9.1. Summary of Key Findings

1. Need for Robust Social Insurance in the RMG Sector

The report highlights the vulnerabilities of workers in Bangladesh's RMG sector, emphasizing the necessity of comprehensive social insurance schemes. Despite economic growth and industrial expansion, the country has yet to establish robust worker protection mechanisms, leaving millions exposed to financial and social insecurity.

2. Implementation of the Employment Injury Scheme (EIS) Pilot Programme

The EIS Pilot Programme represents a significant policy step toward social protection for RMG workers. The scheme aims to provide financial compensation for workplace injuries and is initially funded through voluntary contributions from international brands. However, the long-term sustainability of the programme depends on transitioning to a mandatory employer-funded model.

3. Key Challenges in Expanding Social Insurance

- **Regulatory Capture:** The dominance of business elites, particularly industry associations like BGMEA and BKMEA, has hindered the expansion of social insurance schemes. The government's prioritization of industrial interests over worker welfare has slowed progress.
- **Weak Institutional Capacity:** Government agencies responsible for enforcing labour rights and social insurance policies lack adequate resources and autonomy. This leads to weak regulatory enforcement and low compliance rates among factory owners.
- **Low Trade Union Density:** Bangladesh has one of the lowest rates of trade union participation globally. This fragmentation and suppression of worker representation limit the ability of workers to negotiate for better social protection.

4. Economic and Social Benefits of Social Insurance Expansion

- **Enhanced Worker Productivity:** Simulation results using a Computable General Equilibrium (CGE) model indicate that a 2% increase in total factor productivity in the RMG sector—due to improved social insurance—could lead to a 0.29% rise in real GDP and a 1.81% increase in RMG exports.
- **Reduction in Labour Unrest:** The absence of adequate worker protections has historically led to labour unrest and strikes. Implementing comprehensive social insurance schemes can mitigate these disruptions.
- **Alignment with International Standards:** Strengthening social insurance mechanisms will improve Bangladesh's compliance with global labour standards, reducing reputational risks and securing continued access to international markets.

5. Gender Dimensions of Social Insurance in the RMG Sector

Female workers, who constitute around 55% of the RMG workforce, face unique challenges, including job insecurity, low wages, and inadequate social protection. Policy gaps include a lack of maternity benefits, limited access to healthcare, and the exclusion of informal female workers from insurance schemes.

6. Comparative Insights from Cambodia and Nepal

- The study draws comparisons with Cambodia and Nepal, where social insurance systems are more advanced. Key takeaways include:
- Cambodia has successfully implemented a national social security system despite business elite resistance.
- Nepal's stronger ideological commitment to social justice has enabled broader worker protections, despite economic constraints.

The findings underscore the urgent need for a structured, mandatory social insurance system in Bangladesh's RMG sector. While the EIS Pilot is a step forward, significant regulatory, institutional, and political economy challenges remain. Addressing these issues through strengthened governance, employer participation, and international collaboration will be crucial for ensuring long-term worker protection and economic sustainability.

9.2. Policy Recommendations

The report identifies several policy implications for improving social insurance systems in Bangladesh's RMG sector. These implications focus on regulatory reforms, institutional strengthening, stakeholder engagement, and economic sustainability.

1. Strengthening Legal and Regulatory Frameworks

- **Mandatory Social Insurance Contributions:** The transition from voluntary employer contributions in the EIS Pilot Programme to a legally mandated system is essential for long-term sustainability.
- **Improved Enforcement Mechanisms:** Strengthening government agencies' ability to monitor compliance and penalize non-compliance is critical. Current weak enforcement allows employers to bypass legal requirements.
- **Gender-Sensitive Reforms:** Legal frameworks should ensure maternity benefits, workplace safety, and childcare support for female workers, who comprise a majority of the RMG workforce.

2. Expanding Coverage to Informal Workers

- **Inclusion of Informal Sector Employees:** Many RMG workers, particularly women, are employed informally and are excluded from social insurance schemes. Policies must

extend coverage through micro-insurance models and cooperative insurance mechanisms.

- Leveraging Digital Technologies: Mobile-based contribution systems and simplified registration processes can enhance accessibility for informal workers.

3. Enhancing Institutional Capacity and Governance

- Reducing Regulatory Capture: Industry associations like the BGMEA and BKMEA exert considerable influence over policymaking, often prioritizing cost reduction over worker protections. Strengthening the independence of regulatory agencies can counterbalance this influence.
- Data-Driven Policymaking: Establishing a centralized database on RMG workers and social insurance participation can help policymakers design targeted interventions.

4. Economic Sustainability and Incentives for Employers

- Linking Social Insurance to Productivity Gains: CGE model simulations indicate that improving social insurance can lead to higher productivity, increased RMG exports, and GDP growth.
- Tax and Fiscal Reforms: A broader tax base and efficient revenue collection will be necessary to finance social insurance without placing excessive burdens on businesses.
- Foreign Direct Investment (FDI) as a Catalyst: Countries like Cambodia have successfully expanded social insurance by attracting FDI in diverse sectors beyond garments. Bangladesh can explore similar strategies.

5. Stakeholder Engagement for Consensus Building

- Social Dialogue Between Employers, Workers, and Government: Encouraging tripartite negotiations can ensure that social insurance reforms address the needs of all stakeholders.
- International Collaboration: Global buyers, international organizations, and foreign governments should be engaged in supporting Bangladesh's social insurance initiatives.

The report underscores the urgency of reforming Bangladesh's social insurance framework to ensure worker protection, economic stability, and compliance with international labour standards. Moving forward, a mix of regulatory, institutional, and fiscal measures will be necessary to establish a robust, inclusive, and sustainable social insurance system in the RMG sector.

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