

Introduction of Unemployment Insurance in Bangladesh

Assessing Legislative and
Institutional Readiness

Khondaker Golam Moazzem
Jebunnesa
Abu Saleh Md Shamim Alam Shibly



**Friedrich
Ebert** 
Stiftung

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Executive Summary

Bangladesh has committed to introducing Unemployment Insurance (UI) as part of its National Social Security Strategy (NSSF), adopted in 2015. Both Phase I (2016–21) and Phase II (2022–26) of the NSSF emphasise UI as a critical instrument for income security during job loss. Despite these commitments, progress has been slow due to the absence of a dedicated legal framework, institutional capacity, and operational mechanisms. This study assesses Bangladesh's legislative and institutional readiness to implement UI and identifies gaps, stakeholder perspectives, and actionable recommendations.

Bangladesh's labour legislation the Bangladesh Labour Act (BLA) 2006 and Labour Rules 2015 provides severance and retrenchment benefits but lacks any statutory basis for contributory unemployment protection. Amendments in 2024 mandate the creation of an unemployment insurance fund by 2027, yet detailed provisions remain absent. Institutional structures are fragmented across the MoLE, DIFE, DoL, and welfare funds, with limited coordination and weak enforcement. Digital systems such as the Labour Information Management System (LIMS) are in early development stages, covering only a fraction of formal workers.

International experience shows that UI systems succeed when embedded within comprehensive social insurance frameworks, supported by activation-oriented public employment services and robust digital infrastructure. Advanced economies like Germany and Korea demonstrate the importance of standalone legislation, tripartite governance, contributory financing, and integration with Active Labour Market Policies (ALMPs). However, generous benefit levels and long coverage durations from these models are not immediately feasible for Bangladesh. Emerging economies such as Viet Nam and Thailand offer more relevant lessons: phased implementation, modest benefits, and simple administrative procedures during initial rollout.

Technical steps drafting a standalone UI law, establishing a contributory fund, creating interoperable databases, and linking UI with public employment services are clear and achievable through regulatory reforms. Political challenges are more complex: cost-sharing formulas, inclusion of informal workers, governance arrangements, and wage reforms to ensure affordability of contributions. These require sustained tripartite dialogue and consensus-building.

There is broad agreement on the need for a standalone UI law, tripartite governance, phased rollout starting with the formal sector, and investment in digital infrastructure.

Consensus also exists that UI should operate as a contributory scheme rather than rely solely on tax financing. Disagreements persist on eligibility conditions (e.g., minimum contribution periods), inclusion of informal workers, and financing burden distribution. Employers advocate for clear qualifying rules and verification systems, while workers demand flexible criteria and immediate eligibility to reflect precarious employment realities.

Bangladesh's roadmap for UI must balance ambition with feasibility. Historical experience shows that countries rarely launch comprehensive UI systems overnight; they begin with simpler, less bureaucratic models and expand coverage over time. For Bangladesh, this means adopting a phased approach anchored in legal clarity, institutional capacity, and stakeholder consensus.

Short-term Priorities (0–3 years) include enacting a standalone Social Insurance Act defining eligibility, benefit structures, financing mechanisms, and governance arrangements in line with ILO Convention 168 and Recommendation 202. Establish a dedicated Social Insurance Unit within the MoLE to manage contributions and disbursements, supported by the DIFE for compliance. Scale up LIMS to provide real-time worker and employer data for accurate eligibility verification and transparent fund management.

Medium-term Actions (4–6 years) include launching a controlled pilot in selected formal sectors (e.g., garments, leather, footwear) to test contribution collection, benefit disbursement, and activation measures such as job-search registration. Keep benefits modest and coverage limited during the pilot phase, drawing on lessons from Viet Nam and Thailand. Integrate public employment services to link income support with re-employment opportunities.

Long-term Vision (6+ years) include gradually expand coverage to informal workers through flexible contribution models and shock-responsive eligibility rules. Embed UI within a broader social protection framework, integrating ALMPs to promote employability rather than dependency. Maintain tripartite governance and conduct periodic actuarial reviews and independent audits to safeguard solvency and trust.

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Acronyms

ALMPs	Active Labour Market Policies
BA	Bundesagentur für Arbeit (Federal Employment Agency, Germany)
BLA	Bangladesh Labour Act
BLWF	Bangladesh Labour Welfare Foundation
BPJS	Badan Penyelenggara Jaminan Sosial (Social Security Agency of Indonesia)
BSPAN	Bangladesh Social Protection Advocacy Network
CBA	Collective Bargaining Agent
CPD	Centre for Policy Dialogue
DIFE	Department of Inspection for Factories and Establishments
DoL	Department of Labour
EMCO IG	Employment Committee Indicators Group (European Commission)
EPL	Employment Protection Legislation
ESIC	Employees' State Insurance Corporation (India)
FES	Friedrich-Ebert-Stiftung
FID	Financial Institutions Division
ILO	International Labour Organization
JKP	Jaminan Kehilangan Pekerjaan (Indonesia's UI Program)
LIMS	Labour Information Management System
MOHRSS	Ministry of Human Resources and Social Security (China)
MoLE	Ministry of Labour and Employment
MOLISA	Ministry of Labour, Invalids and Social Affairs (Viet Nam)
NID	National ID
NSDA	National Skills Development Authority
NSIS	National Social Insurance Scheme
NSSS	National Social Security Strategy
PES	Public Employment Services
SSO	Social Security Office (Thailand)
UI	Unemployment Insurance
VSS	Vietnam Social Security

1. Introduction

Unemployment insurance (UI) is one of the four core components of the National Social Insurance Scheme (NSIS) in Bangladesh's National Social Security Strategy (NSSS), adopted in 2015. Both Phase I (Action Plan 2016–21) and Phase II (Action Plan 2022–26) of the NSSS explicitly emphasise the introduction of UI to provide income security for workers facing job loss. The MoLE has been designated as the lead agency responsible for implementing reforms related to UI, including conducting feasibility studies, designing operational mechanisms, and establishing institutional structures to deliver benefits.

Under Phase II of the NSSS Action Plan, a study on the feasibility of UI was submitted to the Financial Institutions Division (FID) and the Cabinet Division in 2023. Based on its findings, the government initially aimed to launch a pilot UI programme in selected sectors by July 2024, with national scaling targeted for July 2025. However, progress towards operationalising the scheme has been limited, largely due to the absence of a dedicated legal framework, institutional structures, and implementation mechanisms.

To address these gaps, the International Labour Organization (ILO) submitted a comprehensive roadmap to the Ministry of Labour and Employment (MoLE) in December 2023. The roadmap outlines coordinated actions required for UI implementation, including actuarial assessments, the development of legal and regulatory frameworks, stakeholder consultations, fund management systems, contribution collection, and beneficiary identification. A key recommendation emphasises that UI cannot be operationalised without a sound legal and institutional foundation, even for the piloting phase.

The introduction of a dedicated UI scheme in Bangladesh is legally justified by the limitations of the current labour legislation, which primarily offers severance and retrenchment benefits without ensuring sustained income support during periods of involuntary unemployment. The Bangladesh Labour Act (BLA) 2006 and its 2018 amendments do not provide a statutory framework for contributory unemployment protection. Bangladesh has not ratified the relevant international labour standards, specifically ILO Conventions No. 102 on Minimum Standards of Social Security and ILO Convention No. 168 on Employment Promotion and Protection against Unemployment. As a result, national legislation does not align with the provisions, benefit structures, or contributory mechanisms outlined in these conventions. Establishing a standalone UI law would fill this legal void by defining eligibility, benefit entitlements, financing mechanisms, and administrative responsibilities, thereby ensuring compliance with global norms and enhancing social protection for workers across both formal and informal sectors.

In this context, the Centre for Policy Dialogue (CPD), in collaboration with Friedrich-Ebert-Stiftung (FES), proposes a study to examine the legislative and institutional readiness of Bangladesh for UI. The study focuses on assessing the legal landscape needed to support the scheme, evaluating the institutional capacity of MoLE, and identifying operational and administrative requirements.

2. Conceptual Framework and Methodology

*The conceptual framework underpinning unemployment protection, as outlined in the ILO publication *Unemployment Protection: A Good Practices Guide and Training Package* (ILO, 2019), rests on the interrelationship among three pillars of income security in the event of job loss: severance payments, unemployment insurance (UI), and unemployment assistance. Together, these mechanisms form a continuum of legal and institutional arrangements designed to provide income replacement and social protection to workers experiencing involuntary unemployment. The ILO paper conceptualises this continuum as an evolutionary progression from employer-based obligations to collectively financed and socially shared risk-pooling mechanisms. The framework recognises unemployment as both an individual contingency and a macroeconomic phenomenon requiring coordinated legal, fiscal, and institutional responses.*

At its core, the conceptual framework of the ILO (2019) paper views unemployment insurance as a contributory, time-bound, and legally defined mechanism for income replacement, distinct from employer-liability instruments such as severance pay. Severance schemes, historically embedded within employment protection legislation, emerged as the earliest form of income security, compelling employers to provide lump-sum compensation at termination. However, such schemes are limited in scope and sustainability, as their financing rests solely on the individual employer–employee relationship. In contrast, UI introduces collective financing, usually through tripartite contributions from workers, employers, and the state, which distributes the cost of job loss across the labour force. This structural shift from firm-level liability to social pooling constitutes a key conceptual advance, moving from private compensation to public insurance.

The ILO framework further distinguishes between coverage, qualifying conditions, and benefit design as the three essential legal dimensions that determine the effectiveness of unemployment protection. Coverage refers to the legal scope of workers entitled to participate, which is typically formal-sector employees, while qualifying conditions (such as minimum contribution periods and rules around voluntary resignation) define the boundaries of entitlement. Benefit design encompasses statutory replacement rates, duration of benefits, and the sequencing of payment with activation measures. Each of these dimensions operates through legislation, and its configuration reflects the balance a country strikes between inclusivity, fiscal prudence, and labour-market incentives. Emerging economies tend to rely more heavily on severance provisions with limited legal coverage of UI, whereas advanced economies show higher levels of statutory inclusion, longer benefit durations, and institutionalised activation policies.

Another conceptual strand concerns risk pooling and moral hazard. By aggregating contributions across a large base, UI transforms unemployment from an employer-specific event into a socially insured risk. However, such insurance creates potential disincentives for job search and re-employment. Consequently, modern frameworks embed UI within a broader system of activation policies, whereby benefit receipt is conditional on registration with public employment services, active job seeking, or participation in training programmes. The legal classification of these activation requirements implies a shift from passive to active labour-market governance, integrating income support with employability enhancement.

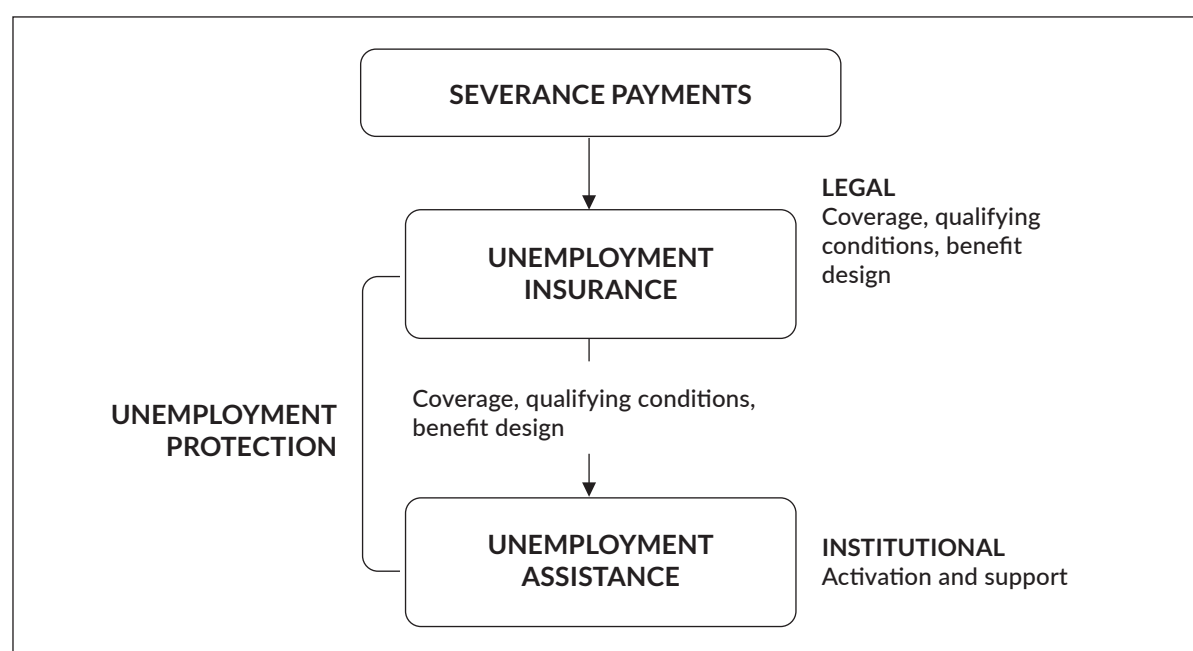
This integration ensures that unemployment protection is not merely compensatory but developmental, linking the insurance principle with human-capital preservation.

Furthermore, there is a negative legal correlation between the severance pay and UI: where severance is generous and widely available, UI coverage tends to be narrow, and vice versa. This reflects substitution in legal and fiscal design, where countries either maintain employer-funded severance as the primary instrument or develop contributory UI systems that render severance less central. The coexistence of both schemes, when well-calibrated, can form a hybrid model balancing immediate employer responsibility with systemic risk sharing.

Finally, the conceptual framework situates unemployment protection within the broader normative guidance of ILO Conventions No. 102 and No. 168, which establish the right to income security during unemployment and outline standards for coverage, benefit adequacy, and activation. The framework thus embeds UI not merely as a technical scheme but as a component of social security and decent work. It acknowledges that legal coverage alone is insufficient without administrative capacity, data systems, and compliance mechanisms to ensure actual access. Hence, the effectiveness of unemployment protection depends on how statutory design, financing, and enforcement interact within a country's labour-market structure and fiscal space (see Figure 1).

Unemployment assistance refers to means-tested support for the unemployed who are ineligible for UI, highlighting the role of Unemployment Assistance within the broader framework of unemployment protection. This component is designed for individuals who do not qualify for contributory UI benefits, such as those working in the informal economy, self-employed persons, or workers who have not completed the legally required contribution or employment period.

Figure 1: ILO Framework for Unemployment Insurance



Source: Prepared by authors based on ILO (2019).

Unlike UI, which is financed through tripartite contributions from employers, employees, and the state, unemployment assistance is fully state-funded and means-tested, meaning eligibility depends on a claimant's income, assets, and household circumstances. Its purpose is to provide a basic level of income support to sustain livelihoods and prevent poverty during unemployment, especially for vulnerable or excluded groups. In legal and institutional terms, this mechanism operates as a non-contributory social assistance scheme within national social protection systems, complementing the contributory UI model to ensure that the safety net covers both formal and informal workers.

Methodology

This study employs a qualitative research approach to examine the legislative and institutional readiness for introducing a UI scheme in Bangladesh. The choice of a qualitative method is guided by the exploratory nature of the research, which seeks to uncover legal and institutional gaps, opportunities, and stakeholder perceptions, given that UI in Bangladesh remains at an early developmental stage.

The research design relies on two complementary strategies: desk review and key informant interviews (KIIs). The desk review systematically examines existing literature, including international experiences with UI schemes, policy reports, and legal documents. Particular attention is given to the Bangladesh Labour Act 2006 and the Labour Rules 2015, along with other statutory provisions and policy frameworks governing employment security, termination, severance, and worker compensation. Additionally, international norms and ILO conventions are reviewed to identify compliance gaps in Bangladesh's legislative framework. These secondary sources are triangulated with findings from primary data.

Primary information was collected through semi-structured KIIs with key stakeholders, designed based on insights from the literature review on global good practices and trends. Interviewees included officials from relevant government institutions (e.g., Ministry of Labour and Employment, Cabinet Division, Department of Inspection for Factories and Establishments), representatives of employers' associations, trade union leaders, and development partners. These interviews provided in-depth perspectives on the feasibility, challenges, and institutional capacity requirements for implementing a UI scheme in Bangladesh.

3. Overview of UI Scheme: A Global Trend Analysis

This section presents a comparative overview of different countries. The analysis relies mainly on the Database of Social Security maintained by the *International Social Security Association* (ISSA, 2025) and the *International Labour Organisation's Employment Protection Legislation Database* (ILO, 2025).

3.1 Global Trends in Unemployment Insurance

UI within Employment Protection Systems: Experiences from both developed and regional economies demonstrate that UI schemes are designed within the broader framework of Employment Protection Legislation (EPL) and labour market institutions. Comparative studies highlight that while the basic objectives of UI, income protection, and support during job loss are universal, the design and implementation features differ significantly across different country contexts.

Advanced vs Emerging Economies: In advanced economies, schemes tend to integrate UI with full-bodied activation policies, while in emerging economies, reliance remains heavier on severance pay and limited social protection mechanisms. According to Parsons (2018), EPL instruments such as severance pay are limited in scope as they provide one-off compensation without addressing the length of unemployment or redistributing risks across the labour force. In contrast, a well-designed UI system spreads risks among employers, workers, and the state, offering sustained protection throughout the job-search period.

Benchmarking UI as per EMCO IG Framework: Based on these differences in the protection system, the European Commission's Indicators Group (EMCO IG) developed a comprehensive benchmarking framework on unemployment benefits and active labour market policies, which comprises two key strands to evaluate UI schemes across EU member states as follows:

- i. Unemployment benefit strand:
 - a. Duration of unemployment insurance benefits
 - b. Net replacement rates of unemployment benefits at the 2nd and 12th months of unemployment
 - c. Length of the required qualifying period
- ii. Activation strand:
 - a. Availability requirements and suitable work criteria
 - b. Job-search and availability-to-work requirements
 - c. Strictness of benefit sanctions

Design Features of UI Benefits: Generally, the benefit design covers features such as eligibility criteria, duration, replacement rates, financing and qualifying periods of the benefit. Whereas activation/support to job seekers encompasses availability-to-work requirements, job-search obligations, monitoring, sanctions and early employment service interventions (Boeri & van Ours, 2009).

In terms of benefit levels, most countries link benefits to recent earnings, usually averaging the last three to six months. Some countries, like Belgium, Denmark, and Spain, apply progressive replacement rates to provide relatively higher support for low-income workers, recognising that many face poverty risks even while employed. Benefit generosity typically declines over time to encourage reemployment, as evidence suggests that extended coverage may increase unemployment durations (Gerard & Gonzaga, 2021).

Voluntary Leavers and Informal Workers: Contribution requirements usually involve both employers and employees, and benefit access often requires a minimum tenure ranging from six months to three years, depending on the jurisdiction, with 12 months being the most commonly adopted (ILO, 2017). The treatment of voluntary job leavers remains unresolved: while including them risks encouraging voluntary unemployment, excluding them may exacerbate vulnerabilities, particularly for women leaving jobs due to family responsibilities and workers leaving jobs due to mental or physical harassment or abuse. Bulgaria, for instance, attempts a compromise by capping benefit duration at four months for voluntary leavers. Qualifying conditions also display commonalities across developed and developing economies. Most countries exclude informal workers and the self-employed from UI, with few exceptions, such as Finland, which includes the self-employed, or Spain and Austria, where voluntary coverage exists (Asenjo & Pignatti, 2019).

Balancing Sanctions and Inclusivity: While strict eligibility criteria and sanctions may reduce misuse, particularly in economies with large informal sectors, they may also undermine coverage and effectiveness (Duval & Loungani, 2019). This is particularly relevant for developing economies where informal employment is widespread, administrative capacity is limited, and poverty among the unemployed is more acute (Asenjo & Pignatti, 2019). In such contexts, UI schemes must strike a balance between preventing abuse and ensuring inclusivity for vulnerable groups.

UI Financing Models: The financing of UI also reflects a country's stage of development. Emerging economies tend to rely more on EPL instruments such as severance pay, which require fewer administrative resources and limited public funding (Özkan, 2019). With economic advancement, countries progressively establish contributory UI schemes funded jointly by employers, workers, and governments. Although contribution burdens are typically higher for employers in emerging economies compared to advanced ones. Contribution schemes are compulsory in most countries, with Denmark as a notable exception, where affiliation is voluntary and funding comes mainly from employees and the state.

Integration with ALMPs: A critical dimension of UI schemes is their integration with Active Labour Market Policies (ALMPs). Most countries require UI recipients to register with public employment services (PES), and participation obligations can range from simple registration to mandatory vocational training, participation in public works, or employment subsidies. These activation measures are designed to improve employability and facilitate job matching, though their scope and intensity vary widely across contexts. Enforcement remains a challenge, particularly in developing countries where monitoring capacity is weak, despite often harsher sanctions for non-compliance compared to advanced economies.

Monitoring and Enforcement Practices: Monitoring and sanction regimes also differ substantially. In advanced economies, job seekers may be required to report biweekly or even weekly to employment offices (e.g., Austria), while in developing countries, reporting intervals are longer due to limited capacity (e.g., quarterly in Serbia and Mauritius). Sanctions range from temporary benefit suspensions, as in Germany and Japan, to complete termination of benefits after a single refusal of a job or ALMP participation, as observed in Chile, Greece, and Thailand. While strict sanctions can deter misuse, they must be carefully calibrated to avoid forcing workers into unsuitable or poor-quality employment (Marinescu, 2017).

Overall, global experience demonstrates that UI schemes operate best when EPL, benefit design, financing, and ALMPs are well integrated. Advanced economies emphasise comprehensive coverage, relatively generous but time-limited benefits, and strong activation policies. Developing economies, however, face structural labour market constraints and limited administrative resources, often resulting in more exclusionary schemes, weaker ALMPs, and stricter sanctions. Balancing financial sustainability with broad coverage remains the central challenge for countries designing or reforming UI schemes (Boeri & van Ours, 2009; ILO, 2013).

3.2 Experiences from Emerging and Advanced Economies

India: Fragmented UI under ESIC: Emerging economies such as India, Viet Nam, Indonesia and Thailand can provide insights into the early developments of UI schemes, whereas experiences from Germany provide a look into the future developments. India's Code on Social Security 2020 offers a potential for a consolidated legal framework for expanding social insurance; however, in practice, UI support has remained a work in progress. For example, in India, unemployment insurance remains fragmented due to the absence of a dedicated legislative framework. Instead, limited UI-type provisions exist under the Employees' State Insurance Corporation (ESIC) Act, as well as fiscally funded programmes such as the Atmanirbhar Bharat Rozgar Yojana and selected state-level pilots. The ESIC, established in 1952, provides the main contributory infrastructure for workers in the organised sector. While the institutional legacy of ESIC is a strength, coverage remains narrow, leaving the vast informal workforce excluded from protection. Moreover, newer fiscal schemes have been criticised for being short-term responses rather than structural solutions to unemployment risks (ILO, 2021).

Indonesia: JKP and ALMP Integration: Similarly, Indonesia has taken a more proactive legislative step by introducing the Jaminan Kehilangan Pekerjaan (JKP) or Job Loss Security programme through Government Regulation No. 37/2021 and its 2025 updates. This binding regulation establishes UI under the social security umbrella of the Social Security Agency of Indonesia, namely Social Security Agency of Indonesia (Badan Penyelenggara Jaminan Sosial (BPJS)), with formal sector workers enrolled through mandatory contributions. Coverage, however, remains narrow given the persistence of informal employment and a significant compliance gap among employers. Preliminary rules suggest UI benefits may last up to six months at around 60 per cent of wages, but practical implementation outcomes are still evolving. A key strength of JKP is its integration with active labour market policies (ALMPs), such as job counselling and retraining programmes. Nevertheless, as a newly implemented scheme, it faces substantial constraints.

Administrative capacity is still developing, awareness among employers and employees is limited, and informal workers remain outside the system's reach.

Viet Nam: Statutory UI with VSS Oversight: In Viet Nam, UI is embedded within the Labour Code and the Social Security Law, providing a clear legislative framework. The scheme is managed by Vietnam Social Security (VSS) in coordination with the Ministry of Labour, Invalids and Social Affairs (MOLISA). Recent Employment Law amendments have broadened UI coverage to include fixed-term contracts of one month or more and part-time workers earning above the minimum contribution threshold, with statutory benefit replacement at 60 per cent of the average insured salary and a maximum duration of 12 months. Contribution is split equally, meaning 1 per cent from the employer and employee, with 1 per cent state support. Studies highlight that the mandatory nature of contributions for formal sector employees and centralised administration enhances compliance and efficiency. However, the scheme's limitations are also evident. Eligibility requires a minimum contribution of three months, which excludes workers with short-term or precarious employment. More critically, with Viet Nam's labour market characterised by a high share of informality, a majority of workers remain outside the scope of UI, undermining its effectiveness as a national protection mechanism.

Thailand: Accessible UI with Limited Reach: Thailand operates its UI scheme under the Social Security Act of 1990, managed by the Social Security Office (SSO) of the Ministry of Labour. The scheme is accessible after only 30 days of contributions, which lowers barriers to eligibility and provides 50 per cent of prior wages for up to 180 days. Under Social Security Fund regulations in June 2025, it allows eligible terminated formal workers with at least six months of contributions to receive 60 per cent of wages (capped at THB 15,000) for up to 180 days, an increase from the previous 50 per cent benefit rates. These features are considered strengths in terms of accessibility and adequacy. Nevertheless, universal coverage has not been achieved, as only formal private-sector workers are included. Persistent labour informality, fiscal constraints, and delays in reforming the scheme to address broader labour market risks have limited its overall impact (ILO, 2019).

China: Long-Term UI with Digital Efficiency: In China, unemployment insurance was institutionalised under the Social Insurance Law of 2010 and the Labour Contract Law, with the Ministry of Human Resources and Social Security (MOHRSS) overseeing implementation. The system provides up to 24 months of benefits with a replacement rate of around 50 per cent of wages, offering a relatively long safety net compared to developing countries. The scheme's success has been partly attributed to the adoption of online platforms for filing claims, which enhances administrative efficiency. Yet, regional inequality remains a significant constraint, as wealthier provinces are able to provide higher benefits, while poorer regions struggle with compliance and financing. Additionally, the exclusion of informal and migrant workers limits the system's equity and reach.

Germany: Comprehensive UI and Activation Model: By contrast, Germany operates one of the most comprehensive and institutionalised UI schemes globally. Governed by the Social Code (SGB III), German UI is legally binding and administered by the Federal Employment Agency. The Federal Employment Agency (Bundesagentur für Arbeit, BA) manages the scheme, which

is well-funded and highly centralised. Germany's system is notable for providing generous benefits, with replacement rates of 60–67 per cent of prior wages for a duration of 12 to 24 months, alongside extensive ALMPs such as training, re-skilling, and job placement (Eichhorst & Konle-Seidl, 2008). This comprehensive approach has contributed to relatively low long-term unemployment rates compared to other OECD countries. However, sustainability concerns arise due to high fiscal costs, and the eligibility requirements for German unemployment insurance, which mandate at least 12 months of prior contributions within the last 30 months, may exclude short-term, part-time, or precarious workers from receiving benefits.

4. Analysis of Legislative Readiness of Bangladesh

4.1 Current Legal Provisions

Scope of the BLA: The Bangladesh Labour Act, 2006 (BLA 2006) is the principal legislative framework regulating employer–employee relations in Bangladesh. It sets out provisions governing employment conditions, contract termination, wages, working hours, leave entitlements, trade union rights, and compensation mechanisms. The Act ensures that workers' rights are protected in cases of lay-off, retirement, retrenchment, termination, dismissal, or death. Article 15 specifies that the provisions on work stoppages (Article 12) and lay-offs (Articles 16–18) apply only to establishments employing at least five workers continuously over the preceding 12 months, exempting smaller establishments from these obligations.

Severance and Lay-off Compensation: The Act provides detailed mechanisms for compensation upon termination of employment. Article 14 stipulates that a worker who has worked at least 240 days (or 120 days) in the previous year shall be regarded as having completed one year (or six months) of continuous service. This calculation also includes days of absence due to lay-offs, sick leave, maternity leave (up to 16 weeks), or lawful strikes. For the purpose of compensation, 'wages' are defined as the average of the basic salary, dearness allowance, and interim or ad-hoc wages paid during the preceding 12 months. Article 30 requires employers to disburse all compensation within 30 working days of separation, including pending wages, provident fund contributions, gratuities, and festival bonuses. Maternity benefits are also guaranteed for eligible female workers.

Retrenchment and Termination Procedures: In the event of lay-offs, Article 16 safeguards worker rights by mandating compensation for those (excluding casual or substitute workers) who have completed at least one year of service. Such compensation amounts to 50 per cent of total wages, which consist of basic salary, dearness allowance, and ad-hoc or interim wages, along with 100 per cent of the housing allowance, if applicable. Workers are entitled to a maximum of 45 days of lay-off compensation in a calendar year. If a lay-off extends beyond this period, further payments must be made for each additional 15-day block, albeit at a reduced rate of 25 per cent of total wages plus the full housing allowance. Employers are also permitted to opt for retrenchment under Article 20 instead of extending lay-offs, with retrenched workers entitled to an additional 15 days' wages on top of their retrenchment benefits, which consist of 30 days' wages for each completed year of service or gratuity, whichever is higher.

The Act further provides for payment in lieu of unused leave at the time of separation (Article 11) and mandates that workers covered by a provident fund must receive both their own and employer contributions upon separation (Article 29). Enforcement responsibilities lie with the Department of Inspection for Factories and Establishments (DIFE) under MoLE, which carries out routine inspections. Additionally, Article 213 allows workers, employers, or Collective Bargaining Agents (CBAs) to approach Labour Courts to enforce their rights.

Grievance and Enforcement Mechanisms: Article 33 establishes a grievance and enforcement mechanism for severance pay disputes. Terminated workers may file a complaint to the

employer within 30 days of notice; if unresolved, they may then approach the Labour Court within a further 30 days. Employers who fail to comply with court rulings face penalties of up to three months' imprisonment or fines of up to BDT 5,000, or both. However, these penalties are widely regarded as inadequate, given the low monetary threshold, which often allows employers to evade meaningful accountability. This underscores the need for timely reforms to strengthen worker protections.

Labour Rules 2015: Operational Clarifications: To complement the Act, the Bangladesh Labour Rules, 2015, were introduced to operationalise its provisions by clarifying procedures, compliance obligations, and administrative responsibilities. The Rules define procedures for layoffs, termination, severance, and benefits, and are thus critical for effective enforcement. Rule 19 requires every employer to maintain a service book for each worker, recording appointments, promotions, wage increases, leave, misconduct, punishments, and termination. These records must be preserved for at least six years after employment ends (Rule 75). Rules 3–7 classify workers into categories such as permanent, temporary, probationary, and apprentice, which is vital in determining their eligibility for severance and lay-off benefits. Casual or substitute workers remain excluded from many protections.

The Rules also specify notice periods and compensation for termination. Under Rules 28–30, if a permanent worker is discharged due to incapacity or ill health (supported by medical certification), the employer must provide 30 days' notice or wages in lieu, in addition to other entitlements. In the case of resignation, monthly-rated workers must provide 60 days' notice, while others must provide 14 days. Employers must settle all dues within 30 working days of termination, consistent with Article 30 of the Act.

Procedures for lay-offs and retrenchment are elaborated in Rules 62–71. Employers must issue written lay-off notices, inform the Labour Director or Inspector, and maintain a muster roll of affected workers. Compensation is set at 50 per cent of total wages plus 100 per cent housing allowance (Rule 65), in line with BLA 2006. The entitlement extends for up to 45 days per year, after which reduced compensation applies. Retrenchment requires 30 days' notice (or wages in lieu) and compensation equal to 30 days' wages for every completed year of service or gratuity, whichever is higher. Employers must notify the Labour Director and the relevant CBA before retrenchment.

For dismissal due to misconduct, Rules 34–41 ensure procedural fairness. Employers must issue a written charge sheet, allow the worker to respond, conduct a fair hearing, and provide a reasoned decision. Failure to follow due process may render a dismissal unlawful. Wage definitions are clarified in Rule 98 to include the average basic wage, dearness allowance, and ad-hoc allowances of the last 12 months, ensuring consistency in severance calculations. Rule 75(2) further requires gratuities to be calculated based on last-drawn wages and paid in a lump sum within 30 working days of separation.

Leave encashment is addressed in Rules 115–118, entitling workers to receive payment for unused annual leave at the time of separation, with encashment calculated at the same rate as leave wages. Enforcement responsibilities under the Rules remain with DIFE, as outlined in

Rules 320–325. Inspectors may conduct unannounced visits, review records, interview workers, and issue compliance directives. Employers are required to maintain registers, including lay-off registers (Form-10) and accident registers (Form-13).

Limitations in Coverage and Enforcement: The BLA 2006 and Labour Rules 2015 establish a system of severance pay, retrenchment compensation, and limited lay-off benefits, but these mechanisms function as lump-sum or short-term protections rather than structured unemployment insurance. In this type of protection, the coverage is narrow, enforcement is weak, and informal sector workers remain excluded.

Need for Legal Reform: Another major challenge arises from the way ‘formal sector workers’ are defined. In most countries, the formal sector includes not only factory workers but also employees in white-collar jobs. In Bangladesh, however, social insurance schemes, such as the Employment Injury Scheme and Maternity Insurance, have so far focused mainly on factory workers, leaving out employees in other formal enterprises. This creates a clear gap in the existing legal framework and highlights the need for more precise definitions and classifications. Revising current policies and documents to properly distinguish between formal and informal workers would be an important step towards ensuring fair, comprehensive and sustainable coverage.

4.2 International Standards

Unemployment protection is a key component of the International Labour Organization’s (ILO) framework on social security. It is one of the 9 branches identified under the Social Security (Minimum Standards) Convention, 1952 (No. 102), which remains the foundational benchmark for developing national unemployment protection schemes. Collectively, the relevant conventions and recommendations provide both minimum standards and progressive guidance for countries seeking to introduce a UI scheme.

a. Social Security (Minimum Standards) Convention, 1952 (No. 102): Convention No. 102 sets the baseline for international standards on unemployment protection. Part IV of the convention requires ratifying states to guarantee income support for persons who are capable of and available for work but unable to secure suitable employment. A minimum of 50 per cent of employees, or all economically active persons meeting specified conditions, must be covered. Eligibility can be based on prior contributions (for contributory schemes) or a means test (for non-contributory schemes).

The convention requires that benefits be provided through a public or publicly supervised institution to ensure accountability. Benefits should be regular, typically in cash, and sufficient to secure a decent standard of living, though no fixed replacement rate is prescribed. Importantly, the convention emphasises proper administration, adequate financing (via contributions or taxation), grievance redress mechanisms, and tripartite participation (government, employers, and workers).

Bangladesh has yet to ratify ILO Convention No. 102 (Social Security Minimum Standards Convention, 1952), which establishes foundational standards for unemployment protection in areas such as coverage, financing, and administration. According to the Bangladesh Social Protection Advocacy Network (BSPAN), the country's social security system remains fragmented and falls short of these standards. Establishing UI may take Bangladesh one step closer to ratifying this convention.

b. Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168): Convention No. 168 represents a more advanced approach, extending beyond income replacement to active labour market reintegration. However, according to reports and the International Labour Organization's (ILO) database, it remains on the list of conventions not yet ratified by the country. Though, as per the report, the government has been working to address unemployment protection.

Nonetheless, the convention applies to all working-age persons who are involuntarily unemployed, including those in non-standard or informal work arrangements, where feasible. Unlike C102, it prescribes adequacy more clearly, requiring benefits to equal at least 50 per cent of prior earnings or a nationally set flat rate.

The convention allows reasonable eligibility conditions but stresses that they must not unduly restrict access. It also mandates support for workers who exhaust benefits, linking unemployment protection with social assistance. Critically, benefit entitlement is conditional on active job-seeking and participation in employment services, vocational training, or rehabilitation programmes, ensuring that UI promotes re-employment rather than dependency. C168 also highlights financing sustainability, transparency in administration, and non-discrimination in benefit access. Its provisions for youth, women, persons with disabilities, and other disadvantaged groups ensure inclusivity within unemployment protection frameworks.

c. Employment Promotion and Protection against Unemployment Recommendation, 1988 (No. 176): Recommendation No. 176 supplements Convention No. 168 by offering practical policy guidance. It emphasises flexible benefit design, combining contributory UI, tax-financed assistance, and labour market measures such as public works. It advocates strong institutional coordination, particularly between unemployment benefit providers and public employment services (PES), to facilitate job counselling, skills development, and job matching.

The recommendation further encourages the use of decentralised or one-stop delivery models, digital platforms for registration and claims, and adaptive measures during economic crises. It also calls for harmonisation of unemployment protection with other social protection programmes (e.g., health insurance and pensions) to avoid fragmentation.

d. Social Protection Floors Recommendation, 2012 (No. 202): Recommendation No. 202 introduces a rights-based and lifecycle approach to social protection, establishing nationally guaranteed minimum floors. While not limited to unemployment, it ensures that all persons of working

age have at least basic income security in cases of unemployment, sickness, or maternity. It also guarantees access to essential health care, income security for children, and pensions for older persons.

R202 is particularly relevant for countries with large informal economies, like Bangladesh, as it allows the use of tax-financed schemes (e.g., cash transfers or public works) as transitional measures towards contributory UI. It reinforces the principle that no individual should fall into poverty due to loss of work, even where a formal UI scheme has not yet been established.

5. Analysis of Institutional Readiness of Bangladesh

5.1 Institutional setup required for implementing Unemployment Insurance

International evidence shows that successful UI schemes rest on four mutually reinforcing pillars: (i) a legally mandated insurance fund with sound contribution collection and benefit payment systems; (ii) a capable, activation-oriented public employment service (PES) that is institutionally linked to UI; (iii) robust compliance, data, and monitoring arrangements (including individual contribution and work-history records); and (iv) tripartite governance with clear accountability for fiscal sustainability and labour-market outcomes (Boeri & van Ours, 2009; Vodopivec, 2013).

In advanced settings such as Germany, institutional reforms bundled UI with strengthened PES and ‘activation’ measures such as profiling, case management, and sanctions, implemented through a modernised Federal Employment Agency and local job centres, which improved placement performance after the Hartz reforms (Eichhorst et al., 2006; Jacobi & Kluve, 2007; Dustmann et al., 2020). Korea’s Employment Insurance (EI) followed a similar blueprint: a unified insurance scheme that finances both income support and active measures, administered by the Ministry of Employment and Labour and its PES network (Korea Labour Institute, 2015; Yoo, 2013). In Vietnam, UI is embedded in the Social Insurance Law and administered through provincial employment centres; early assessments stress the importance of contribution collection via the social insurance authority and tight operational linkages to job-matching and training (Nguyen, 2011; Tran & Le, 2019). Thailand’s UI operates under the Social Security Fund with tripartite financing, but literature highlights design and enrolment frictions and the challenge of extending coverage beyond the formal sector, reinforcing the need for coordinated outreach, digital enrolment, and routine PES conditionalities (Pholphirul, 2013; Mahanna et al., 2024). In addition, each of these countries has a real-time database, depending on which benefits and other support are given.

For Bangladesh, these lessons imply that any UI introduction should be institutionalised through: a dedicated UI fund and contribution collection (preferably leveraging existing revenue or social security collection channels), a statutory link to PES functions (registration, job-search verification, referrals), integrated data systems to track contributions and entitlements, and a tripartite board empowered to set parameters and oversee actuarial balance.

5.2 Existing Institutional Structures

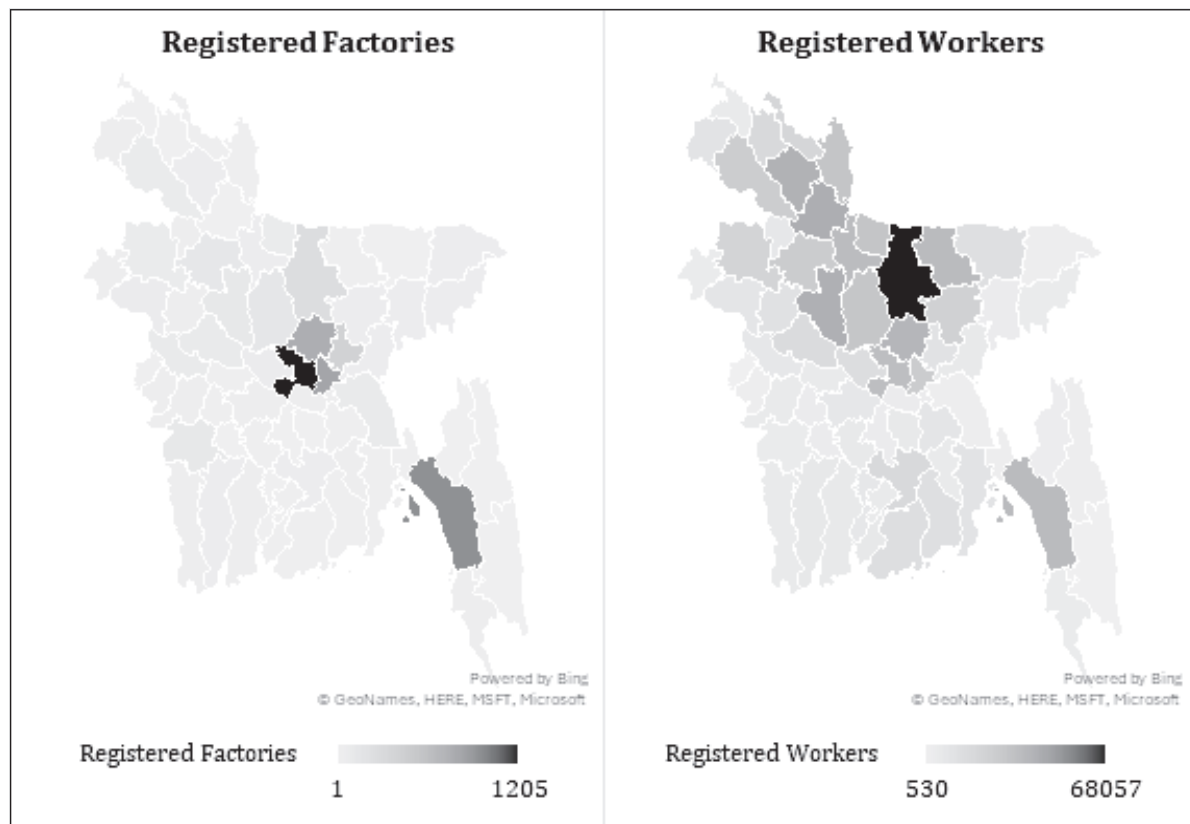
Bangladesh already has core building blocks dispersed across agencies such as the MoLE, which provides policy stewardship; the Department of Labour (DoL), which registers unions and settles disputes; the DIFE, which enforces labour standards; and the Finance Division manages public funds. In addition to this, the Bangladesh Labour Welfare Foundation (BLWF) and the Central Fund (under MoLE) disburse worker benefits in specific sectors.

Among these existing institutional frameworks, the implementation and monitoring of labour laws in Bangladesh still counter significant efficiency gaps. Following the Rana Plaza tragedy, significant reforms were introduced to strengthen the DIFE. These reforms enhanced its legal status, increased staffing, and improved the tools available for inspection. However, despite these improvements, enforcement remains fragmented, and coverage is uneven across sectors. In addition, challenges persist in areas such as coordination between agencies, data sharing across institutions, and ensuring sustained compliance from employers. In the garment sector, for instance, regulatory experiments have revealed the existence of parallel enforcement streams. Both public and private actors (DIFE Inspectors, Auditors, and Brand inspections) engage in monitoring, but their systems often operate in isolation rather than being integrated.

There is also a lack of a single national registry of workers and employers where real-time data can be found. Recently, the MoLE has initiated a website titled “Labour Information Management System (LIMS)” to collect information from employees and employers. To date, 5,007 factories and 709,761 workers have registered in this database. Figure 2 indicates the number of factories and workers registered in the LIMS database.

This initiative would help unify enforcement efforts if the information is updated regularly. In addition, this information system would allow different agencies and stakeholders to share data and coordinate activities more effectively. Such a platform is particularly important if

Figure 2: Bangladesh Labour Information Management System (LIMS) Data



Source: Authors' illustration from Bangladesh Labour Information Management System (LIMS). (n.d.).

Bangladesh wishes to implement a contribution-based UI scheme. To ensure fairness and accountability, the scheme would require accurate worker records, reliable monitoring of contributions, and timely verification of benefit eligibility. Similarly, if job-search requirements are introduced as a condition for receiving UI benefits, the system must be able to track compliance at scale. Without integrated and centralised information systems, these functions would be difficult to manage.

Relative to international good practice, Bangladesh's current agencies provide a strong base, policy (MoLE/DoL), inspection (DIFE), and public finance (Finance Division), but a UI-ready setup will require (a) a legal mandate for contribution collection and benefit administration; (b) a unified claimant journey via PES; and (c) interoperable data and compliance protocols spanning MoLE, DIFE, revenue authorities, and payment providers (Ashraf & Prentice, 2019; Vodopivec, 2013)

6. Identifying Readiness Gaps to Introduce the UI Scheme in Bangladesh

Globally, UI schemes operate within a coherent legal and institutional framework that blends contributory financing, employment services, and active labour market measures. In contrast, Bangladesh's current framework is centred on severance and lay-off compensation, offering only short-term, employer-funded protection. The BLA 2006 (as amended 2018) and Labour Rules 2015 lack the legal foundation, institutional arrangements, and operational systems required to introduce unemployment insurance. It requires dedicated UI legislation, a unified fund and data system, and integration with employment services to ensure both protection and re-employment support.

The BLA 2006, although it emphasises in its regulation employment relations, wage structures, and occupational safety, remains inadequate in addressing the contingencies associated with unemployment. When assessed against the provisions of ILO Conventions No. 102 and No. 168, the Act appears significantly deficient in establishing a functional unemployment insurance framework, notably due to the absence of a statutory basis for benefit entitlements, a contributory financing mechanism, dedicated administrative arrangements, and an institutional linkage with employment or re-employment services.

The gaps in Table 1 represent the existing labour legislation in Bangladesh, neither institutionally nor legally prepared to operationalise an unemployment insurance scheme. Nonetheless, the current welfare fund mechanisms and labour administration architecture may provide foundational platforms upon which a phased or pilot approach to unemployment protection could be progressively developed.

Table 1: Gaps in BLA Compared to Global Experiences

Dimension	Global/ ILO-Aligned Practice	Bangladesh (BLA 2006, amended 2018 & Labour Rules 2015)	Identified Gaps/ Observations
Legal Framework	• UI schemes are established through standalone social security or employment insurance laws defining eligibility, benefits, financing, and administration (e.g., Germany, Viet Nam, Thailand) • These are aligned with ILO Conventions 102 and 168, ensuring contributory financing, public administration, and legally enforceable entitlements • Severance operates alongside UI as a short-term employer liability, complemented by unemployment assistance for those ineligible for UI	• The BLA and Labour Rules govern termination, retrenchment, lay-off, and severance payments • These provide employer-funded compensation but no contributory UI system or income replacement during unemployment • No statutory mechanism links severance to an insurance-based scheme or activation measures	• Absence of a legal framework for UI and unemployment assistance • Current provisions address termination compensation only, not sustained income security • No enabling clauses for contributory financing or tripartite administration

(Table 1 Contd.)

(Table 1 Contd.)

Dimension	Global/ ILO-Aligned Practice	Bangladesh (BLA 2006, amended 2018 & Labour Rules 2015)	Identified Gaps/ Observations
Institutional Framework	• UI funds are administered by public or tripartite bodies (e.g., Social Security Offices or Employment Insurance Funds) connected with Public Employment Services (PES) for registration, job-matching, and benefit delivery • Institutions operate under unified governance, ensuring coordination between benefit administration, labour inspection, and training	• Fragmented welfare funds are managed separately by MoLE, DIFE, DoL, and BLWF • The Central Fund covers limited sectoral benefits • LIMS is being developed to link worker and factory data • No UI fund or coordinating authority exists	• Institutional fragmentation limits coordination between employment services, skills training, and welfare benefits • No single agency is mandated to manage UI • Weak integration between labour market databases and welfare disbursement
Financial Framework	• UI financing is based on tripartite contributions from employers, workers, and the state • Benefit formulas are legally defined and adjusted to ensure fiscal sustainability • Severance obligations are often reduced where UI coverage is comprehensive • Unemployment assistance is tax-funded and means-tested for excluded groups	• Bangladesh relies solely on employer-funded severance and the Central Labour Welfare Fund, which is non-contributory and limited in scale • There is no tripartite or pooled financing structure for income security	• Lack of contributory financing and an actuarial framework for UI • Fiscal sustainability not embedded in labour legislation • No mechanisms for state co-funding or redistribution between sectors
Conditional/ Activation Framework	• Receipt of UI benefits is conditional on job registration, active job search, or participation in skills training and other ALMPs • Legal provisions specify qualifying periods, waiting periods, and sanctions for non-compliance to maintain labour market attachment	• The BLA provides compensation only in cases of retrenchment, discharge, or lay-off, without any condition related to job search, re-skilling, or activation • No defined qualifying period beyond years of service for severance	• Absence of conditionality and activation linkage • Current protection is passive and one-off, providing no incentive for re-entry into the labour market or for workforce upskilling
Operational/ Data and Monitoring	• Modern UI systems use real-time contribution and employment databases integrated with e-governance platforms for eligibility verification, contribution tracking, and benefit payments • Tripartite oversight ensures transparency and compliance • Countries such as Germany, Korea, and Viet Nam employ digital systems linking PES, employers, and workers	• LIMS under MoLE is being piloted for factory registration • Labour inspection and enforcement remain paper-based • Data coverage is limited to formal sector workers, with informal, domestic, and white-collar workers largely excluded	• Weak administrative capacity and fragmented databases hinder the design of contributory or needs-based schemes • Lack of interoperability between welfare, employment, and taxation systems • Informal workers remain outside any unemployment protection

Source: Government of Bangladesh. (2006) and the ILO. (Normlex, n.d.).

7. Stakeholder Perspectives on Legal and Institutional Issues

7.1 Legal Issues

The amendment of the BLA in 2024 mandated the establishment of an unemployment insurance fund by 2027 and created the basis for future contributory schemes such as maternity and sickness benefits. Stakeholders noted, however, that the current legal framework remains incomplete. Government officials, employers, worker representatives, and development partners observed that the BLA 2006, as amended in 2018 and 2024, contains no detailed provision for unemployment insurance beyond the mandate itself. They also pointed out that the existing termination benefit clause, which grants one month of wages for each completed year of service, does not align with ILO standards that recommend unemployment support equivalent to at least six months of income.

Government representatives explained that the BLA now functions as the central legal instrument for worker protection after the repeal of the Workers' Compensation Act. This shift reshapes the structure of compensation and risk across labour policy. Officials highlighted the important distinction between termination benefits and unemployment benefits. Termination benefits compensate for the premature ending of the employment contract, while unemployment benefits are intended to protect workers from income loss once employment has ceased. Because the two serve different purposes, unemployment insurance cannot simply be added to the BLA without creating inconsistencies with existing severance obligations. A separate unemployment insurance law is therefore required to maintain legal clarity and to comply with ILO Conventions 102 and 168. A draft unemployment insurance scheme has already been submitted for cabinet approval, with piloting planned once approval is secured.

The forthcoming National Social Security Scheme for 2026 to 2030 offers an opportunity to integrate unemployment insurance into a more coherent system of social protection. The Ministry of Labour and Employment reaffirmed that unemployment insurance must remain under government leadership in line with ILO Recommendation 202 and Convention 168. Commercial insurance mechanisms cannot replace social insurance because social insurance is intended to protect rights rather than operate through commercial risk pricing. Effective implementation will require strong administrative capacity, transparent fund management, and credible institutions.

Worker associations emphasised that any unemployment insurance legislation must ensure coverage of both formal and informal workers. Leaving informal workers out would intensify existing vulnerabilities in a labour market where informality is dominant. Workers expressed concern that rigid conditions, such as a 12-month continuous service requirement, are not realistic because many workers lose jobs within a short period. They argued for immediate eligibility once employment begins and flexible criteria for informal workers. They also noted persistent gaps in access to statutory benefits such as gratuity and provident fund payments and warned that new schemes should not shift employer responsibilities to the government but rather strengthen compliance.

Employers supported beginning with the formal sector to ensure administrative feasibility. They also cautioned against placing multiple burdens on sectors such as RMG. Employers asked for clear eligibility rules, including a reasonable minimum contribution period, and called for a strong verification system to confirm involuntary job loss. They also emphasised balanced cost sharing and the importance of tripartite governance to maintain transparency and accountability.

The ILO placed these discussions within the wider development of social insurance in Bangladesh. It stressed that contributory design is essential because risk must be shared among workers, employers, and the government. Lessons from the Employment Injury Scheme showed that delays occur when there is no dedicated social insurance institution. Many countries have taken decades to build such institutions, and Bangladesh, as it prepares for LDC graduation, will need to strengthen institutional independence and resilience. Development partners warned that removing worker contributions would turn unemployment insurance into a form of social assistance and weaken its long-term sustainability. They also noted that involvement of private insurers introduces contractual complexities that require clearly defined roles within any shared risk model.

Development partners have been working with the Government of Bangladesh since 2022 on a roadmap for unemployment insurance and on the development of a unified legal framework for social insurance under the Ministry of Labour and Employment. This framework covers unemployment, maternity, sickness and disability. Partners stressed the need for alignment with international labour standards and acknowledged potential areas of overlap with the BLA. Employers and workers also supported piloting before final legislation to ensure that the scheme is both practical and implementable.

7.2 Institutional Issues

Stakeholders consistently stressed the need for a clear governance structure, transparent accountability mechanisms and well-defined institutional responsibilities for future contributory social protection schemes. Workers emphasised that employers, the government and relevant authorities must take unambiguous roles to guarantee financial transparency and ensure proper benefit delivery. They cautioned against any model in which contributions are collected without securing genuine protection. Workers, therefore, argued that future social insurance arrangements must be built on transparent fund management, independent oversight and strong enforcement of labour rights. They also insisted that participation of worker representatives in fund management and scheme design is essential to build trust and long-term sustainability.

Stakeholders also discussed the possible consolidation of existing schemes into a unified framework. While such an approach may increase coherence and reduce fragmentation, workers warned that integration requires careful planning because current schemes differ in eligibility and coverage. Merging them without addressing these differences could create administrative complexity and confusion. Balancing employer obligations with workers' entitlements is necessary to ensure fairness and avoid unintended burdens.

To strengthen administration, workers' federations called for formal recognition as partners in verifying worker information. They noted that federations are well placed to confirm employment status, identify displaced workers and support enrolment in government-led programmes. Expanding these roles will require coordinated collaboration among federations, factories and government agencies.

There was broad agreement on establishing a tripartite data and registration system involving workers, employers and the government. Such a mechanism would support transparent worker registration, strengthen data governance and enable fair allocation of benefits. Stakeholders agreed that coordinated data sharing is a prerequisite for a forward-looking system of worker protection.

Government ministries noted that institutional reforms are underway with support from ADB, GIZ, ILO and UNDP. Two new institutions, the Directorate of Employment and the Directorate of Social Security, are being set up as part of an integrated roadmap for worker protection. Government representatives emphasised that the conceptual design of unemployment protection must clarify risk sharing and define the functional role of the private sector.

Despite these developments, the Central Fund highlighted continuing data gaps. The Fund remains dependent on employer associations such as the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) for worker verification, which causes delays when factory lists are incomplete or inconsistent with NID records. Private sector databases remain stronger than government systems but are not interoperable. Improved data sharing would speed verification and improve transparency for all parties.

Recent technological measures offer some progress. The UWPP MIS now enables verification using phone numbers and mobile financial service accounts, particularly bKash. A new UWPP mobile application is expected to increase accessibility for workers. Yet disbursement challenges persist because the broader issue of interoperable databases remains unresolved. Institutionalisation will also require clear identification of responsible ministries, departments and implementing units supported by effective inter-agency coordination.

Development partners noted that the upcoming National Social Insurance Scheme aims to create a comprehensive framework for unemployment, maternity and sickness insurance as contributory schemes for workers and employers, with government support where necessary. They highlighted that building such a system will be iterative and will require sustained dialogue among all stakeholders.

Across discussions, participants agreed that institutional rollout should start with the formal sector in line with the long-term vision to gradually include informal workers. However, they cautioned that concentrating too many pilot initiatives in the RMG sector may place unnecessary pressure on an already heavily regulated industry. Employers expressed support for contributory social protection but insisted on a transparent data system and tripartite

governance to ensure accurate disbursement and responsible fund management. Government representatives also reiterated that identifying job loss remains a major operational challenge and that a functional LMIS is essential for maintaining reliable worker records.

Institutional capacity emerged as a major concern across all groups. Government officials noted that the absence of a central authority for managing contributions and disbursing unemployment benefits is a fundamental barrier. Many recommended consolidating all social insurance schemes, including disability, sickness, maternity and unemployment, under a single government body within the Ministry of Labour and Employment, with the Department of Inspection for Factories and Establishments responsible for enforcement and inspection. The proposed Social Security Unit within MoLE was described as a potential policy unit, although its current mandate excludes the Employment Injury Scheme (EIS). Officials also pointed out that robust coordination with the National Skills Development Authority (NSDA) and the Ministry of Finance is necessary to operationalise unemployment insurance, particularly the ALMP, which may face bureaucratic resistance and overlapping mandates.

Employers' and workers' organisations supported the idea of consolidation to prevent fragmented obligations. Employers noted that the RMG sector is already burdened with multiple compliance schemes, while other industries remain under-protected. Worker associations emphasised the inclusion of worker representatives in governance and monitoring committees to enhance transparency, particularly in managing the worker database. They advocated for the establishment of a statutory UI body to manage and disburse benefits, thereby reducing dependency on employer discretion during disputes.

Development partners also identified institutional fragmentation as a key obstacle. The ILO and GIZ pointed out that existing employment and training programmes are dispersed across ministries, creating duplication and inefficiency. They recommended an integrated institutional model linking UI management with PES to strengthen job placement, counselling, and reintegration functions.

7.3 Financial and Activation Framework

Discussions on contributory social insurance began with a concern raised repeatedly by workers: their wages. Earnings in both formal and informal sectors remain too low compared with rising living costs, which makes regular contributions difficult. Workers explained that they understand the value of social insurance for long-term protection, yet any contribution must match their limited financial capacity. Earlier experiences, such as the 10 per cent provident fund in the leather sector, show that workers are willing to contribute when systems are transparent, reliable, and clearly connected to benefits. Their hesitation comes not from unwillingness but from worries about affordability and trust in institutions.

Stakeholders agreed that making contributions mandatory under the current wage structure could place extra pressure on low-income workers. Although contributions are important for keeping a scheme sustainable, they must be kept small and fair. Designing such a system requires

careful balancing of the responsibilities of workers, employers, and the government. Workers made it clear that they are not against contributory schemes; they simply want a model that is practical, fair, and sensitive to the realities of their daily lives.

Government representatives maintained that unemployment insurance should operate as a contributory scheme rather than depend on general tax revenue. Even a modest contribution, they noted, helps build awareness, creates a sense of ownership, and prevents the scheme from being treated as welfare. They also pointed to the potential role of global brands, referring to the lessons from the EIS pilot.

The existing Central Fund provides useful insights into how funds are currently managed. This fund is financed only by employers, who contribute 0.03 per cent of export earnings. Despite this, workers' access to benefits is very restricted. At present, the fund mainly provides a loan after a factory permanently closes, and only once assets are liquidated. Workers pointed out that the fund offers almost no protection when they lose their jobs, apart from the recently introduced Unemployment Workers' Protection Programme. These gaps have created doubt about new contributory proposals, as workers feel that earlier schemes have not delivered benefits in line with their contributions.

Civil society organisations argued that expecting informal workers to contribute from the beginning would not be realistic because their earnings vary sharply from month to month. They suggested a four-to-five-year start-up period in which employers and the government would contribute on behalf of informal workers. Only after this settling-in period should informal workers be asked to pay. They also warned that requiring a full year of continuous contributions could exclude many workers who face layoffs or unpredictable employment.

Lessons from the Central Fund and the EIS pilot featured heavily in discussions. Workers observed a familiar trend: profits tend to remain with owners while losses often fall on society. For example, during the COVID-19 crisis, factories relied on government assistance to pay wages, yet profits in regular years were not shared with workers. The EIS pilot showed that problems are usually solved once a scheme is put into practice rather than during planning. Initial funding challenges were addressed when several brands contributed to a temporary compensation fund. Although such support was helpful, long-term stability still relies on employer contributions, consistent with ILO guidance. These experiences suggest that unemployment insurance may also require inventive financing solutions in the early years.

Development partners noted that private sector involvement, especially from global brands, could help pilot the scheme more quickly. Early financial and technical support may make it easier to test the model before full contributions start. They also emphasised the importance of linking unemployment insurance with public employment services so that support for job searching, counselling, and reintegration works in a coordinated way.

Inclusion of informal workers in the scheme presents additional design difficulties. Their irregular work patterns complicate contribution schedules, eligibility rules, and minimum qualifying periods. A phased approach gained broad support: begin with a non-contributory

period funded by employers and government, then gradually introduce contributions from informal workers once the system becomes stable. Eligibility rules must allow for unstable employment conditions so that workers who lose jobs involuntarily are not unfairly excluded.

As the discussion moved from financing to operational challenges, the question of institutional capacity came into sharper focus. Government officials highlighted the lack of a central authority that can manage contributions and distribute unemployment benefits. Many suggested bringing all existing social insurance schemes together under one government body, preferably within the Ministry of Labour and Employment, with DIFE responsible for inspection and enforcement. The proposed Social Security Unit within MoLE was mentioned as a potential policy hub, although it currently does not cover the EIS. Officials noted that strong coordination between ministries, especially with the NSDA and the Ministry of Finance, will be necessary but may face bureaucratic resistance and overlapping responsibilities.

Employers' and workers' organisations supported a more unified structure to avoid scattered obligations. Employers said that the RMG sector already deals with numerous compliance requirements, while many other sectors have very limited protection. Worker groups stressed that their representatives must be included in governance and monitoring committees to improve transparency. They called for a statutory body dedicated to unemployment insurance to ensure fair oversight and reduce reliance on employers during disputes.

Across the discussions, wages emerged as a deciding factor for the design of any contributory scheme. Many workers already struggle to cover basic needs, including education, rent, and healthcare. Several participants argued that wage reform should accompany the introduction of unemployment insurance so that contributions remain genuinely affordable.

7.4 Operational Dimension

Bangladesh's first experience with unemployment assistance emerged during the COVID-19 pandemic, when export-oriented sectors such as garments and leather received short-term income support. Workers could apply for BDT 5,000 per month over three months, yet distribution was highly uneven. As per the KIIs with worker union, large portions of funding were concentrated in districts such as Bagerhat rather than reaching workers in need elsewhere. This uneven allocation exposed weaknesses in governance, monitoring, and scheme design, and highlighted the importance of reliable data systems, transparent procedures, and decentralised verification for any future unemployment insurance programme.

Throughout discussions, workers noted that limited awareness of how contributory social protection schemes operate poses a major operational hurdle. Only a small share of workers have experience with provident funds or other contribution-based benefits. Many do not understand how contributions are calculated, who qualifies for benefits, or how claims are processed. This lack of familiarity fuels hesitation, especially among informal workers, and reinforces the need for long-term awareness programmes as part of UI implementation.

Trust formed the central concern for workers. Delays in benefit disbursement, inconsistent verification, and the exclusion of eligible claimants have shaped their experiences of past

government programmes. During the COVID-19 payments supported by the EU, inaccuracies in factory lists resulted in many legitimate workers being left out. Workers, therefore, argued that contributions should not be collected until transparent fund management, accountable oversight, and accurate data systems are firmly in place. Without these, they feared repeating earlier failures.

A major weakness lies in national labour data. The absence of a reliable Labour Information Management System during COVID-19 made eligibility verification difficult and contributed to exclusion. Stakeholders repeatedly called for a tripartite approach to data governance that involves unions, employers, and government in order to reduce political interference and improve neutrality. Fragmented databases, inconsistent recordkeeping, and manipulated worker lists continue to undermine equitable benefit delivery. Workers insisted that an interoperable database capable of verifying employment history, contributions, and eligibility must form the foundation of the UI scheme.

The gap between private-sector and public databases remains significant. Since many factory-level records are not compatible with government systems, verification becomes slow and unreliable. Workers welcomed renewed data sharing between private associations and the Central Fund, along with digital solutions such as the UWPP mobile app, which promises to simplify registration and improve the accuracy of claims. These steps, while still early, are viewed as promising advances towards greater transparency and accessibility.

Workers also located operational discussions within wider labour rights concerns. They argued that unemployment protection should connect with other long-term entitlements such as provident funds, gratuity, pensions, and employment security, many of which remain inaccessible despite economic growth. Ensuring employer responsibility across these areas is essential for coherence and for building confidence in UI.

Operational challenges also exist within worker organisations. Coordination, communication, and routine engagement across federations, factory committees, and union offices are uneven. Many workers do not know their rights or where to seek help during job loss. Weak organisational structures reduce the effectiveness of any assistance programme and heighten vulnerability.

Another challenge concerns documentation of displaced workers. When workers lose their jobs, their employment histories, reasons for dismissal, and eligibility for support are often left unrecorded. This leaves them invisible within the system. Stakeholders stressed the importance of maintaining detailed worker-level information to ensure transparent and fair benefit delivery.

Confusion between formal and informal worker categories also remains widespread. Without consistent classification, future schemes risk misidentification and exclusion. To address this, departmental datasets are being integrated into the new Integrated LIMS with support from BGMEA, BKMEA, EPZ authorities, and BBS. Worker self-registration through the LIMA mobile app is being introduced to create more reliable records. Broader policy frameworks are also

being explored to cover reintegration, migrant worker issues, and gradual formalisation of informal employment.

The inclusion of expatriate returnees emerged as an additional issue. Several participants noted that returning migrant workers, including those coming back from Malaysia, face significant reintegration challenges. Extending UI coverage to this group could improve national labour market resilience and fill an existing gap in support.

Government representatives outlined a phased operational roadmap. In the next one to two years, efforts will focus on legal reforms through tripartite dialogue, completion of actuarial analysis, strengthening of public employment services, and creation of a digital employment database linked to payroll systems. Over the following three to five years, a pilot will begin in selected formal sectors such as RMG, before gradually expanding towards informal workers.

Lessons from recent factory closures also provided insight. In the leather sector, only a fraction of factories could provide usable worker lists. Many records contained mismatched NID information, including incomplete numbers and incorrect sequences, which blocked verification and delayed disbursement. These issues prompted policy adjustments in 2023 and 2025, including simpler eligibility rules and reduced reliance on strict NID verification. DIFE has been tasked with collecting closure-related data to improve accuracy.

The Central Fund reported that although thousands of applications were submitted in earlier years, disbursement remained low due to verification failures. Recent improvements have helped the system gain momentum. Approximately 1,200 export-sector workers are now being processed under the UWPP, demonstrating the value of policy revisions, technological upgrades, and better data collection.

The most critical operational requirement identified by stakeholders is a comprehensive and accurate worker database. Without it, no UI system can function reliably. Eligibility design also received attention. Participants supported developing two eligibility streams. The first would cater to shock situations such as disasters or epidemics, where standard contribution rules are impractical. The second would apply during normal conditions to preserve scheme integrity.

Participants also recognised cultural barriers in long-term planning. Many workers have limited experience with structured saving or future-oriented insurance tools. Successful UI implementation will therefore require intensive sensitisation and counselling to build understanding and improve willingness to enrol.

Visibility of benefits was highlighted as essential for stakeholder alignment. When workers and employers see practical advantages, cooperation becomes easier. Early pilot programmes will therefore play an important role in demonstrating value, testing procedures, and refining administrative systems.

Stakeholders across sectors agreed that operational readiness for UI remains limited. Government officials described the LIMS being developed by DIFE as the central platform for tracking profiles, unemployment incidents, and skills data, though issues with data completeness and maintenance persist. Many workers still lack valid NIDs, and employers often fail to update records regularly. Officials also noted that expanding UI coverage would require further formalisation in areas such as ridesharing and self-employment.

Employers acknowledged that they would bear a significant share of financial responsibility and called for a streamlined contribution mechanism. Worker associations supported gradual benefit disbursement with declining percentages over time in order to reduce moral hazard and encourage job re-entry. They noted previous failures in benefit delivery and stressed the need for statutory oversight of UI fund management.

Development partners echoed that a phased pilot supported by government subsidies is essential for building administrative capacity. They observed that progress on strengthening public employment services has been limited and that stronger links between UI and re-employment services are required. They emphasised the importance of inclusive social dialogue among workers, employers, and government to resolve legal, financial, and operational challenges and establish a viable unemployment insurance system.

Table 2: Overall Summary of the Stakeholders' Perspective

Issue	Government	Employers	Workers
Legal	• BLA 2024 amendment mandates UI fund by 2027, but lacks detailed provisions for UI • Termination benefits differ from UI; a separate law is required to comply with ILO Conventions 102 and 168 • UI must remain under government stewardship; commercial insurance cannot substitute • National Social Security Scheme (2026–2030) offers integration opportunity	• Support piloting UI first before full legislation • Clear eligibility rules, including a minimum contribution period • Ensure balanced cost sharing and tripartite governance	• UI law must cover formal and informal workers • Flexible eligibility criteria; 12-month continuous work requirement is unrealistic • New schemes should strengthen employer compliance rather than shift responsibility to government • Persistent gaps in gratuity and provident fund noted
Institutional	• Centralised authority required for contributions and disbursement, ideally within MoLE • Inter-ministerial coordination with NSDA and Finance essential • LIMS under development for tracking worker profiles, unemployment incidents, and skills	• Support consolidation to avoid fragmented obligations • Emphasised formal sector to reduce administrative burden • Transparent governance and statutory oversight needed	• Worker representation in governance and monitoring committees is vital • Federations should verify employment and support enrolment • Tripartite data governance needed for fair allocation

(Table 2 Contd.)

(Table 2 Contd.)

Issue	Government	Employers	Workers
Finance/ Contributions	• UI must be contributory rather than tax-funded • Small contributions build ownership and avoid drift into social assistance • Government may subsidise early phase, especially for informal workers	• Seek streamlined contribution mechanism • Emphasise fair cost-sharing to avoid overburdening sectors like RMG • Early-phase brand contributions welcomed	• Contributions must be realistic relative to low wages • Support phased inclusion of informal workers after initial employer/government funding • Affordability and trust in fund management are key concerns
Activation/ Eligibility Framework	• Distinguish shock-responsive vs regular eligibility criteria • Minimum contribution periods may be waived for crisis situations	• Distinguish shock-responsive vs regular eligibility criteria • Minimum contribution periods may be waived for crisis situations	• Immediate eligibility desirable once employment starts • Flexible criteria for informal workers and intermittent employment • Include expatriate returnees and vulnerable workers
Operational	• Develop a digital employment database linked to payroll • Strengthen PES, public employment services, and reintegration • Phased rollout beginning with the formal sector	• Administrative feasibility prioritised in the formal sector • Ensure unified contribution and benefit management • Avoid excessive regulatory burden on sectors like RMG	• Reliable worker databases essential for fair benefit distribution • Awareness campaigns, training, and counselling needed • Coordination across worker organisations is critical • Technological solutions like the UWPP/LIMA app supported

Source: Authors' representation based on the findings.

8. Conclusion

8.1 Summary Findings

Bangladesh stands at a critical juncture in its journey towards introducing UI. The country has articulated strong policy commitments through the NSSS and recent amendments to the BLA, which mandate the establishment of an unemployment insurance fund by 2027. However, progress remains largely conceptual. There is no dedicated UI law, institutional architecture is fragmented, and digital systems such as the LIMS are still in early stages of development. Current labour legislation provides only severance and retrenchment benefits, which are short-term and employer-funded, rather than a contributory, systemic approach to unemployment protection.

Global practices offer valuable insights but also caution against wholesale transplantation. Countries such as Germany and Korea demonstrate that UI works best when embedded within a comprehensive social insurance framework, supported by activation-oriented public employment services and robust digital infrastructure. These components like standalone legislation, tripartite governance, contributory financing, and integration with active labour market policies are technically transferable to Bangladesh. Similarly, digital systems for real-time eligibility verification and benefit tracking, as seen in China and Viet Nam, represent critical enablers for efficiency and transparency.

However, certain features of advanced economies such as generous benefit levels, long coverage durations, and extensive activation measures are not immediately feasible given Bangladesh's fiscal constraints and administrative capacity. Instead, lessons from emerging economies like Indonesia and Thailand suggest a phased approach: start with limited coverage in formal sectors, modest benefit levels, and gradual integration of activation measures.

The technical requirements for UI introduction are relatively clear: drafting a standalone law, establishing a contributory fund, creating interoperable databases, and linking UI with public employment services. These steps are largely administrative and can be implemented through regulatory and institutional reforms. In contrast, political challenges revolve around cost-sharing formulas, inclusion of informal workers, governance arrangements, and wage reforms to ensure affordability of contributions. These issues require sustained tripartite dialogue and consensus-building, as they touch on competing interests among employers, workers, and the state.

Stakeholder consultations reveal broad agreement on the need for a standalone UI law, tripartite governance, phased rollout beginning with the formal sector, and investment in digital infrastructure. There is also consensus that UI should operate as a contributory scheme rather than rely solely on tax financing. However, disagreements persist on eligibility conditions particularly the minimum contribution period and the scope of informal worker inclusion. Employers advocate for clear qualifying rules and verification systems, while workers demand flexible criteria and immediate eligibility to reflect the realities of precarious employment. Financing burden distribution remains another contested area, with employers seeking balanced cost-sharing and workers emphasising affordability.

The concept of a 'pilot' has generated some ambiguity. It should not imply a fully operational UI system from the outset. Rather, the pilot must serve as a controlled test of core mechanisms in selected formal sectors such as garments, leather, and footwear before nationwide expansion. Key objectives should include validating contribution collection processes, benefit disbursement protocols, data verification through LIMS, and activation measures like job-search registration. Given significant institutional gaps, the pilot must be preceded by legal enactment, digital readiness, and capacity-building within the Ministry of Labour and Employment and its affiliated agencies.

8.2 Way Forward

Based on the synthesis above, Bangladesh's path towards unemployment insurance must balance ambition with feasibility. Historical experience shows that countries rarely launch comprehensive UI systems overnight; they begin with simpler, less bureaucratic models and expand coverage and benefits over time. For Bangladesh, this means adopting a phased approach based on legal clarity, institutional capacity, and stakeholder consensus.

Short-term Priorities (0–3 years): The first step is enacting a standalone Social Insurance Act that includes unemployment insurance. This law should define eligibility, benefit structures, financing mechanisms, and governance arrangements in line with ILO Convention 168 and Recommendation 202. Concurrently, the dedicated Social Insurance Unit of MoLE needs to manage contributions and disbursements, supported by the DIFE for ensuring compliance. Digital readiness is critical: the LIMS must be scaled up to provide real-time worker and employer data, enabling accurate eligibility verification and transparent fund management.

Medium-term Actions (4–6 years): A controlled pilot should be launched in selected formal sectors such as garments, leather, and footwear. This pilot must test core mechanisms like contribution collection, benefit disbursement, and activation measures like job-search registration without attempting full-scale implementation. Lessons from Viet Nam and Thailand suggest that modest benefit levels, short coverage durations, and simple administrative procedures are most effective at this stage. The pilot should also integrate public employment services to link income support with re-employment opportunities.

Long-term Vision (6+ years): Once institutional systems mature, coverage should gradually expand to informal workers through flexible contribution models and shock-responsive eligibility rules. Integration with active labour market policies will be essential to ensure that UI promotes employability rather than dependency. Governance should remain tripartite, with employers, workers, and government sharing responsibility for oversight and fiscal sustainability. Periodic actuarial reviews and independent audits will safeguard solvency and trust.

It recognises that while legal and administrative reforms are largely technical, financing arrangements and inclusion of informal workers are deeply political and require sustained dialogue. By sequencing reforms and embedding UI within a broader social protection framework, Bangladesh can move from conceptual commitment to operational reality.

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