

Framework for a sustainable employment injury
insurance scheme in Bangladesh

February 2022

INTRODUCTION

This note summarizes the framework towards a sustainable employment injury scheme (EIS) in Bangladesh. It details the Pilot's strategic elements – as endorsed by national stakeholders at the end of 2021. It also describes the milestones, tasks, and activities to support and strengthen national capacities towards a full-fledged wage-based EIS in Bangladesh respectful of best practices and international standards. The full-fledged EIS for the RMG sector is seen as the expected result of the Pilot, to be introduced at the end of the process. Therefore, it discusses how the environment could be made conducive to the full deployment of an EIS in Bangladesh based on the transformation that will have occurred during the Pilot period.

This framework aims at achieving, at the end of the Pilot's duration, a sustainable nationally financed wage-based EIS in Bangladesh. Also, the framework is about creating bridges beyond the technicalities of an employment injury insurance scheme over time. It completes the efforts already made on the prevention of employment injury in Bangladesh in the RMG, through initiatives such as ACCORD and, more recently in the pandemic context, the Call to Action. Because there is no zero-risk work environment, it addresses the situation where a work-related injury occurs to ensure that productivity is maintained while effective protection is given, in line with what decent work is.

On 18 February 2021 the Government of Bangladesh established a tripartite committee tasked to *piloting employment injury insurance scheme in Bangladesh*. A committee's working group met at the end of 2021 to discuss the details and main elements of the Pilot, which were finally endorsed by national stakeholders in early 2022 (see Appendix 1).

1 DETAILS OF THE PILOT FOR RMG SECTOR IN BANGLADESH

1.1 PRAGMATIC AND AFFORDABLE APPROACH: THE PILOT'S VISION, OBJECTIVES AND OUTCOMES

A mixed approach, guided by ILO standards and best practices, is proposed as a starting point for the EIS Pilot as presented in the [ILO Technical Recommendations](#). It recommends a more limited set of benefits initially aligned with national delivery capacity and progressing towards the ultimate benefits. Selected benefits will continue to be paid under the current employer-liability regime.¹ There are some advantages to be gained from this approach towards EIS, viz.: a gathering of essential information to fine-tune actuarial estimates; strengthening of capacities for the delivery of certain complex benefits and administration of the scheme; demonstration of the scheme's sustainability and resulting in lower costs to enterprises; and providing the time necessary to ensure that a sustainable transformation can occur.

The Pilot is grounded on the following **vision**:

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

¹ This is in line with [Recommendation 202](#) on national social protection floors, which insists on recognizing national capacities and the gradual progress in line with capacities, as long as the political backing is there.

The **General Objectives** of the Pilot are:

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

The **Specific Objectives** of the Pilot are:

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

The expected **Outcomes** of the Pilot are:

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

1.2 COVERAGE OF THE PILOT

As agreed during the workshop of the working group of the EIS tripartite committee, the Pilot proposes a two-fold approach for its coverage:

- 1) Workers contributing to the RMG sold to international buyers are covered in case of work-related accidents
 - No need to collect data before the event. *Event-driven system*
 - No need to have the workers or the employers registered before the event
 - Need for a communication strategy to inform the RMG supply chain relevant components
 - Accident reporting required
 - Catastrophes covered at the workplace (excluding natural disasters)
 - Temporary workers covered

- 2) At the start of the Pilot, BGMEA and BKMEA will suggest the registering factories for the purpose of data gathering (MIS) and medical capacity strengthening, in consultation with workers and brands
- Sample of factories should be around 150 factories covering 150,000 workers at a minimum
 - Selection criteria for factories are:
 - 15% large, 50% medium and 35% small
 - Geographical representativity
 - BGMEA (60%) and BKMEA (40%) members

1.3 ELIGIBLE BENEFICIARIES

Most of the beneficiaries will be the workers themselves. The survivors (dependants) are defined in line with BLA (See §2(30)) and their identification will be made as per legally appropriate documentation.

1.4 PILOT'S LEGAL BASIS

The Pilot is grounded on existing institutional and legal frameworks. This respects one of the guiding principles of the Pilot, i.e. time is of the essence. It also gives more strength to the Pilot's activities to support national capacities and resources as they currently exist and ensure greater sustainability in the long term.

1.5 PILOT'S DESIGN

The Pilot's design includes the benefits design and the EIS institutional and operational structure (operational agency).

1.5.1 Benefits design

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

More specifically, the Pilot covers the following:

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

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

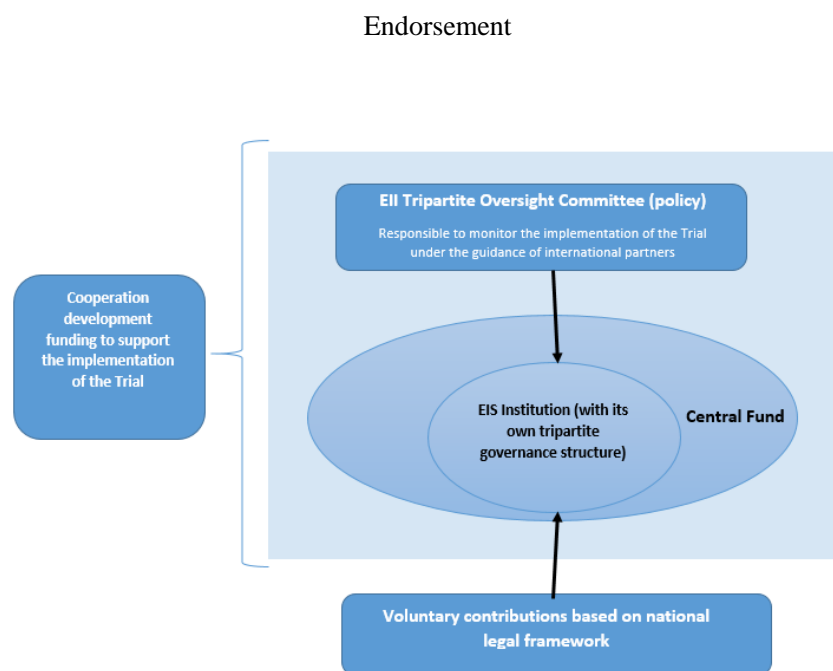
1.5.2 EIS Institutional and operational frameworks for the Pilot

The institutional oversight of the Pilot comes under a Tripartite EIS Pilot's Committee. A fund and an implementing (operational) agency are required for the implementation of the Pilot. The fund is the shell in which funding for the Pilot is deposited. The implementing agency runs the delivery of

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

Possible solution. The Pilot is anchored in the domestic framework and uses existing structures. The Pilot could use the provisions of the Bangladesh Labour Act, SRO 291-Law/2015, more particularly its provisions 212 to 236 on the Central Fund. The use of the Central Fund's pre-existing structure limits the need to make institutional and normative changes and undoubtedly places the Pilot within the domestic framework relevant to RMG sector. This option allows establishing an ad-hoc administrative structure within the Central Fund (sub account) where the resources would only be used for the sole purpose of the Pilot. If this option is privileged, the staff trained could be integrated into the Central Fund or Governmental system at a later stage, thus maximizing capacity building at the national level.

Figure 1 Possible structure of the EIS Institution, including its supervision – Implementing partner within the Central Fund



1.6 PILOT'S FUNDING

1.6.1 Projected Annual Costs of the Pilot

- The costs of EIS services and benefits related to temporary incapacity and rehabilitation would continue to be regulated by the current system (employers' liability) and disbursed at the factory level. These benefits are not taken into consideration for the cost of the Pilot.
- Under the Pilot, compensation for permanent disability and death would still be payable by the Central Fund (or other similar entity) under the same conditions as per the legal framework. The Central Fund (or other similar entity) would continue to act as the first payer for long-

term benefits. A top-up pension would then be payable by the Pilot's fund to the beneficiaries to ensure that the value of all long-term employment injury benefits payable is equivalent to the actuarial value of benefits payable under Convention No 121.²

- The total cost of benefits payable to victims of workplace accident for permanent disability and death benefits is projected at 0.15³ percent of wages of the workers:
 - 0.10 percent is the cost for permanent disability benefits (total and partial disability, care and assistance)
 - 0.05 percent is for death benefits
 - Based on [assumptions of actuarial valuation](#) and assumptions of this Pilot (4,000,000 covered workers with an average wage of 125 USD per month), the annual cost of benefits is estimated at USD 8,990,000.

- To assess the cost of the Pilot, it is necessary to calculate how much of the 0.03 percent levy on all RMG export orders is effectively used for long-term related injury benefits. Currently:
 - The Central Fund consists of two distinctive accounts receiving equal share of the 0.03 levy on export orders, the beneficiary account and contingency account. Only the beneficiary account is used for paying employment-injury compensation.
 - Assuming that 2,500,000 workers are covered by the Central Fund while 1,500,000 other workers are covered by the Group Insurance.
 - Knowing that in the light of actuarial valuation, the Central Fund is called to pay USD3,500 for death and total disability respectively and USD1,200 in case of the loss of a limb that does not prevent the victim from working.⁴
 - Knowing that for the workers not covered by the Central Fund (or other similar entity) is called to pay USD2,400 for death and total disability respectively.⁵
 - It could be estimated that the Central Fund disburse approximately USD2,518,000 per year for long-term employment injury benefits.
 - The Pilot cost would then be the difference between the total cost of long-term injury benefits and what is currently paid by the Central Fund (or other similar entity) for that purpose.
 - This approach leaves the Central Fund's processes and funds unchanged and makes it a Pilot's partner. Furthermore, it helps in mainstreaming the relevant processes.

- When taking into consideration the funding gap between the required amount to cover permanent disability and death benefits as per Convention No 121 (USD8,990,000) and the value of the benefits to be paid by the Central Fund (and Group Insurance) (USD2,518,000), the voluntary contribution required to cover the benefit cost of the Pilot is USD6,472,000 per year.

- Local administrative costs are projected at 0.02 percent of workers' wages:
 - Assumes the recruitment of local staff to administer the EIS institution
 - Some costs are fixed and cannot be reduced regardless of the number of benefits covered (i.e. management of the institution, auditing fees, etc.)
 - The more benefits are covered, and the more experienced the scheme is, the more likely administrative costs would be reduced
 - All other assumptions are identical to the actuarial valuation.

² The actuarial value of the top-up pension provided under the Pilot will be at least equivalent to the benefit paid under the employers' liability for long-term benefits.

³ Based on comparable experience from neighbouring countries in the RMG sector. This experience does not take into account catastrophic events similar to Rana Plaza. However, it can be assumed that free reserves that may emerge as part of the EIS's lifecycle may provide compensation to victims of catastrophic events.

⁴ The value of the benefits paid by the Central Fund is determined by using the same assumptions as per the [actuarial valuation assumptions](#). This leads to an estimation of 110 workers entitled to permanent disability benefits, 1,193 workers are entitled to partial disability benefits and 110 workers who die following a workplace accident. It is assumed that permanently disabled workers will receive the total disability compensation from the Central Fund and that partially disabled workers will receive the loss of limb compensation from the Central Fund.

⁵ The value of the benefits paid by the Group Insurance is determined by using the same assumptions as per the [actuarial valuation assumptions](#). This leads to an estimation of 66 workers that are entitled to permanent disability benefits and 66 workers that die following a workplace accident.

- Based on the above, the annual cost of the EIS institution is estimated at USD900,000.
- **Based on the above, the voluntary contribution to cover the Pilot's cost would be estimated at USD7,372,000 per year. That represents 0.13 percent of wages.**
- **During the first three years of the Pilot, in-depth cost analysis is carried out with the view of including commuting accidents in the final national EIS scheme.**

The cost of international development cooperation support is not included in the above calculations. For more detail on the support activities to develop and strengthen national capacities, see below.

1.6.2 Channeling of the EIS Pilot's funding

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

2 STRENGTHENING OF NATIONAL CAPACITIES PROGRAMME

Four axes are privileged to strengthening national EII capacities:

1. Building the EIS institution
2. Policy framing and social dialogue
3. Capacity strengthening of main stakeholders
4. Transition to full national coverage

Capacity building will be achieved through various means such as seminars, workshops, training and study visits to other countries. Particular attention will be brought to data management. The Pilot's implementation will be accompanied by expert consultation aiming at validating the sound quality and appropriateness of the measures proposed. Tools, training materials and manuals will be developed for capacity building of EIS staff and institution.

2.1 BUILDING THE EIS INSTITUTION

Development cooperation activities related to the EIS institution will include amongst others:

- Support the EIS Tripartite Committee within the Ministry of Labour and Employment, tasked with the general monitoring of the Pilot;
- Support to (the establishment of) an EIS tripartite governance body within the Central Fund (or any other structure) to supervise the implementation and administration of the EIS Pilot's scheme;
- Support to the EIS institution body delivering the benefits covered by the EIS Pilot, including on workflow and financial transaction procedures;
- Training on functions that must be performed by the EIS institution;
- Provide technical support to the institution for the implementation of the administrative system;
- Development of digitalization and protection of personal and sensitive data tools;
- Proper disability assessment tool and impairment rating;
- Exposition to live examples of existing social insurance and EIS of other countries, especially in Asian countries;
- Support to ensure gender equality in the outcomes of the Pilot;
- Monitor the performance of the implementing institution and propose changes as required.

2.2 POLICY FRAMING AND SOCIAL DIALOGUE ACTIVITIES

Technical assistance and support on policy and regulatory framing as well as social dialogue activities is required. Development cooperation activities in this field include amongst others:

- Contribute to ensuring a sound framing for the implementation of the Pilot;
- Support social dialogue on EIS in Bangladesh, including support to the Tripartite Committee on EIS or similar structures;
- Develop a legal framework for the long-term national roll-out of the EIS (from RMG sector to all workers);
- Provide an analysis of the results of the experience of the Pilot, including an assessment of the costs related to the delivery of benefits to injured worker. This exercise will allow to adjust the required contribution to the scheme;
- Create an international environment conducive to considering EII as a fundamental entitlement for workers.

2.3 CAPACITY BUILDING OF STAKEHOLDERS RELATED TO EMPLOYER'S LIABILITY BENEFITS

Under the Pilot, efforts will be put on supporting the national stakeholders to increase the capacity to deliver the benefits under the employers' liability, including:

- Provide support to develop national guidelines on disability assessment and diagnosis of occupational diseases:
 - Medical training to a team of national experts that will draft these guidelines
 - Nation-wide medical training following the adoption of the guidelines to ensure smooth and universal application of EIS compensation
- Provide support to developing a national benefit package for physical and vocational training and rehabilitation;
- Gather relevant data of factories in the Pilot on workplace accident, delivery of benefits under employers' liability and provide comments to strengthen capacities at national level;
- Provide an estimate of switching from the agreed upon hybrid system to full EIS in light of the experience of the Pilot in the RMG sector.

2.4 TRANSITION TO FULL NATIONAL COVERAGE OF EIS, RISK MITIGATION AND EXIT STRATEGY

The Pilot adopts a pragmatic approach by proposing a **temporary** and **voluntary** solution aiming at kick-starting the transformation required towards a full-fledged wage-based contribution EIS in Bangladesh. At the end of the Pilot, the institution should be equipped with the necessary skills and competence and better knowledge on the implementation of an EIS, allowing to envisage nationwide coverage. Throughout the Pilot, GIZ/ILO will offer capacity-building and technical support to gather the evidence to propose fact-based recommendations for the effective and smooth extension of such coverage.

The Pilot promotes a transformative process and should be seen as the first stepping-stone towards a full-fledged EIS in Bangladesh. There are a number of risks running against the approach if not well controlled and managed. One of them is that the tripartite partners in Bangladesh do not remain fully committed to its realization. It is argued that these risks can be seriously lowered through the very transformative processes that the Project is proposing. Over the years, the transformation will occur through the transparent processes detailed in the work plan and that address the various facets of a sustainable EIS institution. The technical work achieved during the Pilot's duration should lead to an environment conducive to the national deployment of the EIS, with a clear normative framework put into place, which is understood and supported by the main stakeholders. Furthermore, there might be a feared risk for brands participating in the Pilot's voluntary financing

scheme that this becomes compulsory at the end of the Pilot if the foreseen transformation has not occurred. To mitigate this, the ILO and GIZ have put into place the following safeguards:

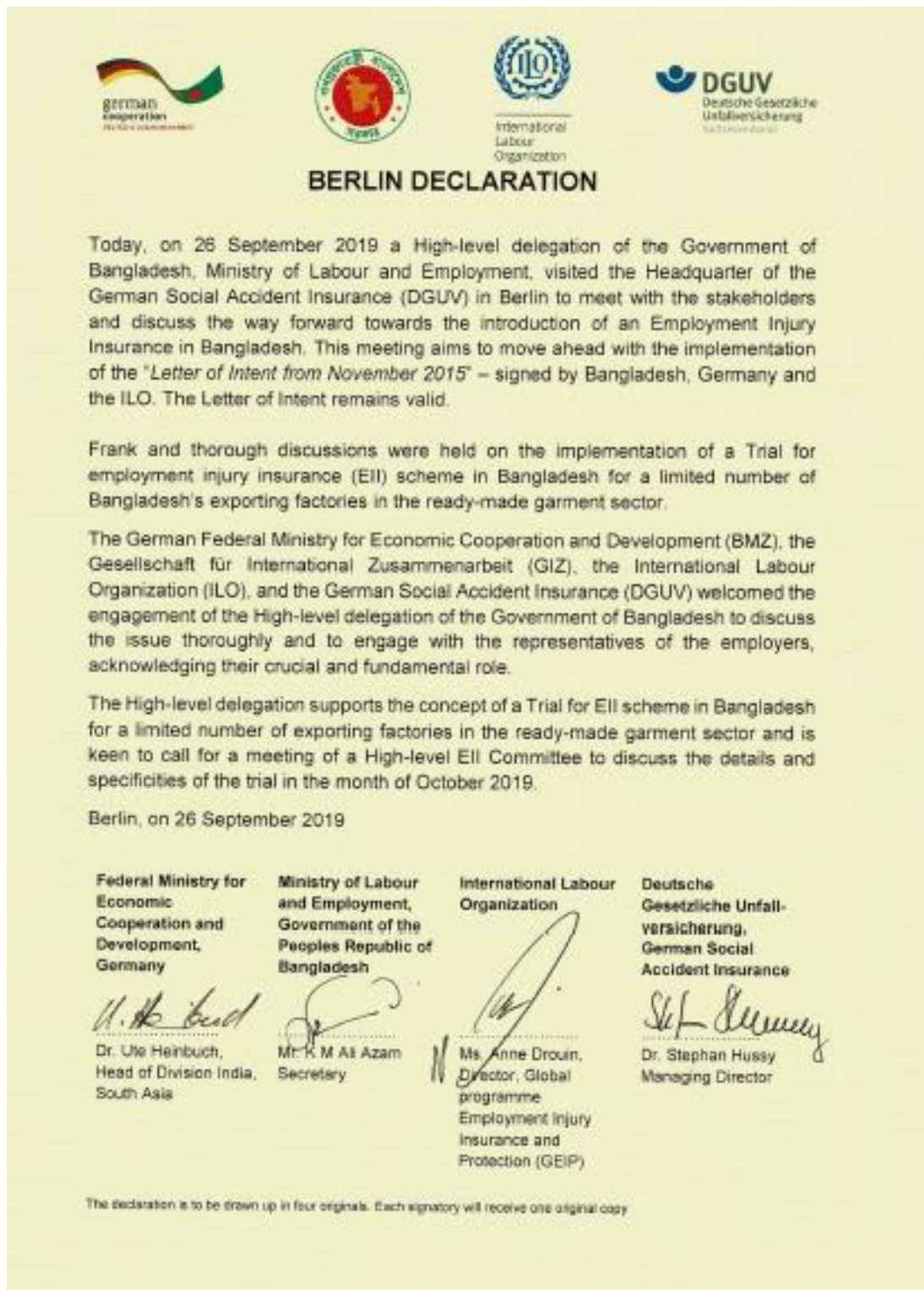
- Pilot's limited duration (not more than five years). All stakeholders have been informed of this limited duration at the outset;
- Voluntary contribution from brands will be renewed every year, thus allowing brands to join or withdraw depending on the assessment of the progression;
- Participation of the brands in the monitoring process and specific processes to bring necessary adjustment in due time;
- Active role of the ILO in the tripartite governance structure and scheme's operationalization (with GIZ for the latter).

The ILO and GIZ are aware that such endeavour requires active accompaniment and strict monitoring; hence they are ready to commit more than USD 12 Million of development cooperation funding to support their activities, in addition to the resources drawn from their regular budgets. Such support will serve in particular to provide hands-on assistance to the EIS institution's operation, to ensure that victims have access to medical care and benefits are paid in due time. Particular attention will be brought to data management to have comprehensive data on factories and workers in the RMG sector, which is key to a sustainable protection system and the linkage it should make with prevention if sustainability is pursued.

All of the above should pave the way to a change in the legislation where employers will contribute to financing the EIS institution by paying a waged-based contribution that has been evaluated at 0,33% of the wage bill. Having worked on the transformation for the duration of the Pilot, authorities, social partners, and other important players will have internalized the characteristics and added value of such risk-pooling approach and will contribute to the system's efficiency and sustainability.

What happens if the necessary normative framework is not in place at the end of the Pilot period? In that case, there will be no obligation for the government, the brands or other entities financing the gap to pursue their support, and the ILO has already expressed to the authorities that it would not be in a position to pursue its assistance at the level mentioned above. The scheme would stop top-up payment and would go back to employers' liability as provided in the legal framework. There is no need to search for alternative support. In such a scenario, beneficiaries will be paid at least what is provided for in the Labour Code. However, the activities aiming to strengthen the capacities of the institution and staff concerned have been designed so that their impact can already be felt in the current system.

A1 APPENDIX 1: BERLIN DECLARATION AND LETTER OF ENDORSEMENT (March 2022)



Tripartite endorsement of the Piloting on Employment Injury Scheme (EIS)

As a follow up to the Declaration signed in September 2019, we take due note that the Technical Committee on Piloting Employment Injury Scheme (EIS) formed by the Ministry of Labour and Employment, has endorsed the pilot on EIS at its 1st meeting held virtually on 6 July 2021. Operational details have been discussed with success on key technical topics during the technical working group workshop in the 1st week of December 2021. This means that all constituents agree to the broader principles of the pilot. This entails the financial coverage for all workers associated with 100% export-oriented apparel supply chain in Bangladesh, for long terms benefits in the event of death and permanent disability arising out of workplace accident and injuries. These financial benefits will be additional to the current legal entitlements of the workers and their beneficiaries for the said long term contingencies. Further to this, a data collection exercise will be undertaken during the pilot tenure for fine tuning the pilot scheme and to provide recommendations for a national EIS scheme. Any financial involvement of the local producers for implementation of the pilot is not foreseen during the piloting phase of the EIS.

It should be noted that although the agreement to start the pilot is unanimous, but details regarding the administrative arrangement and financial compensation is still under discussion (A draft framework is annexed). Further to this all parties agree to enter this pilot with the clear picture that the pilot is meant to be a proof of concept and what happens post pilot is strictly the decision of the local stakeholders.

We again affirm our commitment towards the pilot of EIS and welcome the development partners, including the ILO and GIZ which have already committed to provide technical support, to mobilise technical assistance to ensure healthy progress towards an effective protection scheme against work-related injury in Bangladesh.

This document has been signed on 10 March 2022, in presence of the social partners (Employers and Workers' representatives).

Best regards

Mr. Md. Ehsan-E-Elahi
Secretary
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Government of the People's Republic of Bangladesh
Bangladesh Secretariat, Dhaka