

Evolution of Third Sector Economy in The Developing Countries: The Case of Bangladesh

Hakan Acet¹ and Zobayer Ahmed^{1,2}

¹Department of Economics, Selcuk University, Konya, Turkey

²Assistant Professor, Department of Economics & Banking, IIUC, Bangladesh

Abstract: *The study explores the reasons behind the emergence and evolution of the third sector in developing countries' contexts with a particular focus on Bangladesh. Volunteer groups, non-government organizations (NGOs), and other social organizations make up the third sector of an economy. Many third sector organizations (TSOs) work alongside government and corporate groups in the modern world, both in developed and developing countries. TSOs, on the other hand, have not emerged in the same way in industrialized and developing countries. Based on secondary data, the study reveals significant diversity between the two nations. In the case of Bangladesh, several NGOs began working to satisfy societal needs soon after the liberation war in 1971. Natural and man-made calamities, poverty, and a slew of other socio-economic issues prompted several social entrepreneurs to create TSOs later. The study has academic implications for understanding the third sector's diversity between the developed and developing countries*

Keywords: *Third sector, NGOs, TSOs, developing countries, developed countries*

1. Introduction

The third sector of the economy is made up of non-profit, volunteer, and social groups (Alcock, 2010). Each economy has a third sector in addition to the private and public sectors. In an economy, there is market failure (GUI, 1991), government failure (Defourny, 2013), and coordination failure (Enjolras, 2000), hence the existence of the third sector is justified. However, the size of the third sector in an economy is determined by various factors in numerous economies. In Europe, the size of the third sector has a considerable impact on the calculation of national income (Anheier et al., 2014). In the Netherlands, the third sector accounts for over 10% of GDP (Gross Domestic Products). In contrast, the third sector accounts for 4.1 percent, 5.3 percent, and 2.4 percent of GDP in Germany, Sweden, and the United Kingdom. However, due to a lack of controlled data, the third sector's contribution to most economies, particularly in developing nations, remains essentially unquantifiable.

From a development perspective, the third sector is contributing a lot to every economy. Studies reveal that the rise in per capita income, level of education, development and altruistic mindset that results in the inception of third sector organizations (TSOs) in an economy. However, the developing countries are characterized mainly by low per capita income, significant illiteracy rate, and widespread corruption. Nevertheless, there exists a large number of TSOs in developing countries. Eventually, the evolution of the third sector in developing countries requires scientific investigation.

Following the terrible hurricane of 1970, national and international non-governmental organizations (NGOs) began operating as relief groups in Bangladesh (Hasan, Mulamootil, & Kersell, 1992). Between 1990 and 2000,

the Bangladesh NGO Affairs Bureau registered 2534 non-governmental organizations (NGOs) (NOAB). In addition, there is an untold number of volunteer organizations operating in the local economy, with a large number of them registered with the Department of Social Services (DSS). Since its founding in 1990, the NOAB has approved 29134 projects, totaling a total of \$12 billion in funds. By 2020, NGOs in Bangladesh will have received 50% of the country's official FDI.

Given this background, the evolution of such a significant sector in the economy requires scientific inquiry. For this, the present study thus tried to explore the evolution process of third in the developing countries, focusing on Bangladesh. The following sections present the literature review, methodology and the findings, followed by a discussion and conclusion.

2. Literature Review

Despite the lack of data on the third sector in many countries, various studies have sought to identify the determinants of the third sector in an economy (Kala, 2008; Kim, 2011; Moulaert & Ailenei, 2005; Spicka, Arltova, Boukal, & Smrcka, 2017). Other studies were conducted to find factors related to third sector organizations from historical (Kalogeraki, 2020; Lim & Endo, 2016) and social (Alexander & Smaje, 2008; Belzunegui-Eraso, Erro-Garces, & Pastor-Gosalbez, 2013; Grieve & Olivier, 2018; Hughes, 2019; Kala, 2008) perspectives.

In the context of the Visegrad Countries, Spicka et al. (2017) suggested that GDP per capita is a crucial predictor of the non-profit sector. After the fall of Japanese colonialism in Korea, Bidet (2002) claims that political embeddedness and cultural embeddedness are the key distinguishing qualities of Asian nations. Another study (Lim & Endo, 2016) looks at the social economy's advancement in terms of two factors: third-sector groups' political strength and the degree of governmental involvement in the social economy.

The historical determinants of third-sector organizations, on the other hand, were undertaken predominantly using Rokkan and Esping-proposed Andersen's theoretical frameworks (Kim, 2011). Nonetheless, service-learning, which entails accountability, solidarity, and reciprocity at the individual level, encourages students to participate in community service in more significant numbers (Sotelino Losada, Mella Núñez, & Rodríguez Fernández, 2019). Objective variables do not enhance the effectiveness of non-profit organizations in the Volgograd Region of the Russian Federation (Vasilieva, Danilova, Poltavskaya, & Strizoe, 2018). Wong and Jun (2006) stated that the failure of state and public entities is also responsible for establishing a big third sector in China when it comes to delivering old-home services.

In a nutshell, research undertaken in industrialized countries shows that the size of the third sector is determined by population, market size, and the relationship between the government and the lucrative private sector. These studies also discovered that different care systems for the elderly and GDP per capita significantly affected establishing a primary voluntary sector in industrialized countries. However, in developing countries, particularly Bangladesh, the third sector and its economic factors remain underdeveloped.

3. Methodology

The study is based on secondary data. Data for this study have been collected from several sources- World Development Indicators (WDI) given by World Bank (WB), Asian Disaster Reduction Center (ADRC), and Affairs Bureau (NOAB) of Bangladesh. The analysis mainly relies on descriptive analysis.

4. Findings

4.1. Historical evolution of third sector in Bangladesh

Non-government organizations (NGOs) originally appeared in Bangladesh shortly after the country's liberation war in 1971. Gano Shasthya, for example, began as a mobile medical unit supporting freedom fighters in 1971; RDRS began by providing post-war rehabilitation services and supporting infrastructure development

in the north-west region; and BRAC, the world's largest non-governmental organization, started by providing relief and rehabilitation assistance to a community of fishermen in Bangladesh (Sajjad, 2004). Bangladesh is also subject to natural disasters (Haider, 2011). Following the terrible hurricane of 1970, domestic and international non-governmental organizations (NGOs) began working in Bangladesh as relief organizations (Hasan et al., 1992). Many overseas philanthropic groups garnered considerable infusions of funding from abroad as the war-torn economy was rebuilt. They were primarily concerned with giving food and other supplies to the war-torn population during this time. They started by providing clothing, medical supplies, and food and then grew to include homes for war victims. By 1973, NGOs had united vast groups of people who had previously worked with national and international relief organizations. They had once established an effective organizational structure for carrying out grassroots activities. It was around this time, according to NGO leaders, that they discovered that relief efforts do not fix the poor's problems. They argued that NGOs' standing would improve if relief efforts and resources could be channeled more beneficially by incorporating the recipients themselves.

4.2. Number of NGOs registered over the years

The number of NGOs registered over the years does not show an increasing trend.

Figure 1 shows the number of NGOs registered in Bangladesh since 1996. Before 2006, the numbers of NGO registration were below 100 per year, with a top of 83 in 2000 and the lowest was 61 in 1998. However, in 2006, the number of NGO registration dramatically increased to 132 followed by 116 in 2007.

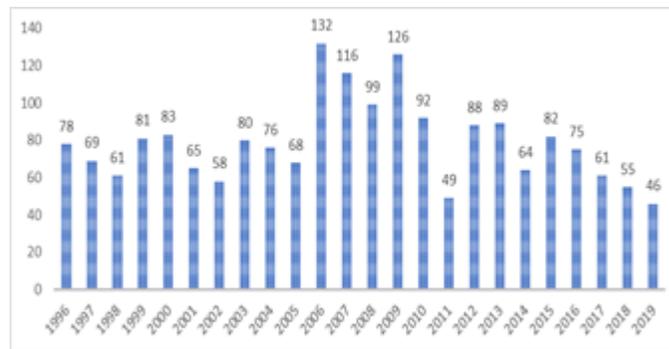


Fig. 1: Number of NGOs registered over the years

It continued to decline in 2008. But in 2009, some 126 new NGOs got registered. In recent years, NGO registration is declining. In 2006, there was a shift in the government structure from democratically elected to a caretaker government led by bureaucrats. This interim caretaker government continued till 2008 and a new democratic government was formed in 2009. During this period, the number of NGOs registered was significantly higher than in other years.

Table I: Number of projects (more than 1000) by years and potential reasons for third sector intervention

Year	Number of NGO projects approved	Potential reasons that required third sector intervention
1999	1045	World Bank reveals, 40% of the drinking water in Bangladesh was found Arsenic contaminated
2005	1193	Country-wide bomb attacks by a militant group
2008	1462	Global financial crisis
2009	1042	A devastating cyclone hit the coastal areas
2010	1172	Two large fires and a devastating storm killed more than 200 people
2011	1120	Dramatic fall in stock market indexes in Bangladesh
2012	1077	Man-made disasters mentionable- fires, sinking ferry
2013	1048	Severe political unrest erupted due to the war crime issue
2014	1116	Political unrest and man-made disaster continued
2015	1035	Political unrest and man-made disaster continued
2017	1037	Massive Rohingya refugees influx from Myanmar to Bangladesh
2018	1625	General election, students protest on the streets
2019	1600	Fires, cyclones, and student protests continued

4.3. Number of projects approved for the third sector and disaster death

One of the major functions of the NGO Affairs Bureau is to approve foreign-funded projects for voluntary activities. The following Figure 2 shows how many projects were approved by NOAB in different years and the number of deaths resulting from natural disasters. Since historically, the NGO sector is developed in the post-liberation war crisis, other studies (Muhammad, 2018; Sajjad, 2004) also reveal the fact. There is an upward trend in project approval with occasional fluctuations. There is a temporary peak in 2008 when nearly 1500 projects were approved. In that year, the disaster death was also increased slightly. One of the primary reasons behind such a substantial rise in NGO project approval was fear of the global financial crisis in 2008. In recent years, the number of project approval were 1027, 1625 and 1600.

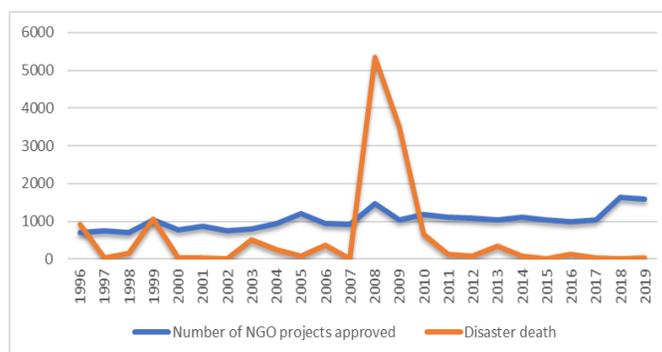


Fig. 2: Number of third sector projects approved and disaster death (Source: NAB, Bangladesh 2020)

Over the years, more than 1000 projects have been approved in some years (Figure 2). The highest number of projects approved in 2018 was 1625. The year is characterized by two big student protests on the street, as Quota Amendment Movement (QAM) by university students and the Safe Road Movement (SRM) by the school students mostly. At the end of the year, the general election was held, and both domestic and international observers criticized the authenticity of the election. In other years, the economy of Bangladesh faced some natural and man-made disasters, economic crises, and environmental and global problems. All these created significant human sufferings that neither the market nor the government alone could mitigate. Eventually, third sector organizations came forward and the concerned authority (NOAB) approved a substantially large number

of projects.

5. Discussion

The study's findings reveal that the evolution of the third sector economy in Bangladesh is largely related to disasters and economic uncertainties. Both market and government fail to respond immediately during such emergency periods (Alcock, 2010; Defourny & Nyssens, 2017; GUI, 1991). Hence, the intervention by the third sector becomes necessary. This finding reflects the theories behind the third sector development. While in developed nations, the development of the third sector depends on the per capita income, level of tertiary school enrolments and the welfare activities of the government (Spicka et al., 2017). Higher education level and the large per capita income makes people more dedicated to society through altruism that develops third sector organizations (Bezhani, 2015). However, developing countries are characterized by low levels of per capita income and a lower rate of tertiary school enrolment. Hence, following the same approach from developed countries, the third sector can not emerge in developing countries.

6. Conclusion

The third sector in an economy comprises voluntary organizations, non-government organizations (NGOs), and other social organizations. In the modern world, both in developed and developing countries, many third sector organizations (TSOs) work apart from government and private organizations. However, the emergence of TSOs in developed and developing countries is not based on similar backgrounds. There is significant diversity between the two nations. In the case of Bangladesh, immediately after the liberation war in 1971, many NGOs started working to meet social needs. They collected funds from home and abroad. Later on, natural and man-made disasters, poverty, and many other socio-economic problems pushed some social entrepreneurs to develop TSOs. However, in developed countries, people get involved in TSOs with a higher per capita income, education, and a generous mindset. The present study findings will benefit the researchers working in the third sector to understand the nature and evolution of TSOs both in developed and developing countries. Nevertheless, the research did not cover the econometric analysis of the variables that determine the third sector development in developing countries. Eventually, future investigations can focus on more quantitative approaches to find the factors behind the emergence of TSOs in developing countries.

References

- [1] Alcock, P. (2010). A strategic unity: defining the third sector in the UK. *Voluntary Sector Review*, 1(1), 5-24. doi:10.1332/204080510X496984
- [2] Alexander, C., & Smaje, C. (2008). Evaluating third sector reuse organisations in the UK: Case-studies and analysis of furniture reuse schemes. *Resources Conservation and Recycling*, 52(5), 719-730. doi:10.1016/j.resconrec.2007.09.005
- [3] Belzunegui-Eraso, A., Erro-Garces, A., & Pastor-Gosalbez, I. (2013). *Telework as a Driver of the Third Sector and its Networks*. Hersey: Igi Global. <https://doi.org/10.4018/978-1-4666-2667-6.ch005>
- [4] Bezhani, E. (2015). THIRD SECTOR AND YOUTH EMPLOYMENT. *International Journal of Ecosystems and Ecology Science-Ijees*, 5(2), 193-196.
- [5] Bidet, E. (2002). Explaining the third sector in South Korea. *Voluntas*, 13(2), 131-148. doi:10.1023/A:1016003721758
- [6] Defourny, J. (2013). Third sector. In *Handbook on the economics of reciprocity and social enterprise*: Edward Elgar Publishing.
- [7] Defourny, J., & Nyssens, M. (2017). Social enterprise in Europe: At the crossroads of market, public policies and third sector. *Policy and Society*, 29(3), 231-242. doi:10.1016/j.polsoc.2010.07.002
- [8] Enjolras, B. (2000). Coordination failure, property rights and non-profit organizations. *Annals of Public and Cooperative Economics*, 71(3), 347-374. doi:<https://doi.org/10.1111/1467-8292.00145>

- [9] Grieve, A., & Olivier, J. (2018). Towards universal health coverage: a mixed-method study mapping the development of the faith-based non-profit sector in the Ghanaian health system. *International Journal for Equity in Health*, 17, 20. doi:10.1186/s12939-018-0810-4
- [10] GUI, B. (1991). THE ECONOMIC RATIONALE FOR THE “THIRD SECTOR”. *Annals of Public and Cooperative Economics*, 62(4), 551-572. doi:https://doi.org/10.1111/j.1467-8292.1991.tb01367.x
- [11] Haider, S. K. U. (2011). Genesis and growth of the NGOs: Issues in Bangladesh perspective. *International NGO Journal*, 6(11), 240-247. <https://doi.org/10.5897/INGOJ11.025>
- [12] Hasan, S., Mulamoottil, G., & Kersell, J. E. (1992). Voluntary organizations in Bangladesh: a profile. *Environment and Urbanization*, 4(2), 196-206. doi:10.1177/095624789200400220
- [13] Hughes, C. (2019). Resisting or enabling? The roll-out of neoliberal values through the voluntary and community sector in Northern Ireland. *Critical Policy Studies*, 13(1), 61-80. doi:10.1080/19460171.2017.1374872
- [14] Kala, K. (2008). THE SOCIAL ORIGINS OF THE ESTONIAN NON-PROFIT SECTOR. *Trames-Journal of the Humanities and Social Sciences*, 12(4), 441-449. doi:10.3176/tr.2008.4.05
- [15] Kalogeraki, S. (2020). Alternative action organizations across different welfare and third sector regimes during hard economic times. *Journal of Civil Society*, 16(2), 120-137. doi:10.1080/17448689.2020.1769327
- [16] Kim, S. H. (2011). On the historical determinants of third sector strength: A qualitative comparative analysis. *The Social Science Journal*, 48(4), 641-650. doi:https://doi.org/10.1016/j.socij.2011.03.007
- [17] Lim, S. H., & Endo, C. (2016). The development of the social economy in the welfare mix: Political dynamics between the state and the third sector. *Social Science Journal*, 53(4), 486-494. doi:10.1016/j.socij.2016.09.002
- [18] Moolaert, F., & Ailenei, O. (2005). Social economy, third sector and solidarity relations: A conceptual synthesis from history to present. *Urban Studies*, 42(11), 2037-2053. doi:10.1080/00420980500279794
- [19] Muhammad, A. (2018). Rise of the corporate NGO in Bangladesh. *Economic and Political Weekly*, 53(39), 45-52.
- [20] Sajjad, Z. (2004). NGO Sector in Bangladesh: An Overview. *Economic and Political Weekly*, 39(36), 4109-4113. Retrieved from <http://www.jstor.org/stable/4415513>
- [21] Sotelino Losada, A., Mella Núñez, Í., & Rodríguez Fernández, M. Á. (2019). The role of civic and social entities in service-learning. Systematizing the students' participation in the third sector. *Teoria de la Educacion*, 31, 197-219. doi:10.14201/teri.20156
- [22] Spicka, J., Arltova, M., Boukal, P., & Smrcka, L. (2017). Long-Term Determinants of the Size of the Non-Profit Sector Serving Households in the Visegrad Countries. *Inzinerine Ekonomika-Engineering Economics*, 28(5), 524-534. doi:10.5755/j01.ee.28.5.19254
- [23] Vasilieva, E., Danilova, E., Poltavskaya, M., & Strizoe, A. (2018). Development of the third sector: Social activity management. *Journal of Social Sciences Research*, 2018(Special Issue 3), 364-368. doi:10.32861/jssr.spi3.364.368
- [24] Wong, L., & Jun, T. (2006). Non-state care homes for older people as third sector organisations in China's transitional welfare economy. *Journal of Social Policy*, 35, 229-246. doi:10.1017/s0047279405009505

Dr. Hakan Acet has been working an associate professor of macroeconomics at the Department of Economics in Selcuk University Turkey since 2017. He completed his bachelor's in economics from Hacettepe University in Ankara in 2001. After that he received his master's and PhD degree from the Department of Economics of the Selcuk University. So far, he has published 2 books and more than 30 articles in peer reviewed international and national journals. He also presented papers in 28 academic conferences and visited more than 40 countries in the world.

Zobayer Ahmed currently pursuing his PhD in Economics at Selcuk University, Turkey. Moreover, he is a faculty member (Assistant Professor) at the Department of Economics & Banking, International Islamic University Chittagong. He completed bachelor and master's in economics from Shahjalal University of Science & Technology, Bangladesh. He did a

second master's in the development studies from the University of Dhaka. He has published more than 15 articles and book chapters in relevant peer-reviewed, impact factor journals. He also attended 12 international conferences.