

Bangladesh Poverty Assessment

Assessing a Decade of Progress in
Reducing Poverty, 2000-2010

Key Messages
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Foreword

Throughout the 2000-2010 decade, Bangladesh experienced steady and strong GDP growth of nearly 6 percent per year on average. During this period, poverty rates also demonstrated an impressive steady improvement, falling by about 1.7 percentage points per year. Using data from the Household Income and Expenditure Survey (HIES), a joint product of the Bangladesh Bureau of Statistics and the World Bank, this report shows that, while 49 percent of Bangladeshis were poor in 2000, this percentage had dropped to 31.5 by 2010. In addition, Bangladesh also achieved better health outcomes, improved living conditions for the poor, lower childhood mortality, increased under-five vaccination rates for all children, increased literacy rates, and improved safety net coverage. These are impressive achievements!

The analysis of the 2000-2010 period presented in this report finds that poverty reduction was closely linked to growth in labor income and demographic changes. It also shows that the sources of income growth varied significantly between the first and the second halves of the 2000-2010 decade. Differential rates of poverty reduction along an “East-West Divide” characterized the first half (World Bank, 2008), but regional differences were significantly reduced in the second half. Nevertheless, while overall improvement in wellbeing was strong across all regions, poverty continues to be a substantial and stubborn problem in Bangladesh, where about 47 million people still live in poverty and 26 million people in extreme poverty. Moreover, poverty in rural areas continues to be relatively more pervasive and extreme than in urban areas, whereas urban areas remain relatively more unequal.

Overall, the report’s findings suggest that sustained poverty reduction moving forward will require coordinated multi-sectoral action. To maintain steady growth in jobs, it will be necessary to promote investments to raise agricultural productivity and also to promote growth in the demand for salaried work in manufacturing and services (e.g., through improving infrastructure, supporting entrepreneurship by promoting the rule of law, and strengthening the transparency and accountability of both the public and private sectors). With regard to demographic changes, a “demographic opportunity” will be realized only if there are policies in place to harness it. Thus, Bangladesh will need both to cater more aggressively to the needs of the growing youth cohorts in the coming years and to begin preparations for aging-out of the demographic dividend.

Lastly, Bangladesh can make better use of social safety net coverage and human capital formation to sustain poverty reduction. There remains much potential for improving the linkage between safety nets and poverty reduction through improved design, targeting and timing of safety net responses. In addition, education remains a key pathway to breaking free from the intergenerational transmission of poverty, and there is similarly substantial scope for improving the quality of, and expanding access to, schooling. A continuation of the policies and programs that have proven successful, combined with improving safety nets and placing more emphasis on skills development and child nutrition, could prove a powerful formula for increasing human capital and further poverty reduction in the future.

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A remarkable decade of progress

Bangladesh experienced a steady decline in poverty between 2000 and 2010

Poverty declined by 1.7 percentage points per year. The series of shocks that affected Bangladesh in 2007 and 2008 did not significantly slow down the speed of poverty reduction. The decline in poverty rates has been sufficient to ensure a 26 percent reduction in the number of people living in poverty. Inequality as measured by the Gini index of real per capita consumption remained relatively stable over the decade. Real per capita consumption increased proportionally across all income groups. Despite an increase in rural real per capita consumption in 2010, the gap in the speed of poverty reduction between urban and rural areas has widened over the last five years. Extreme poverty still remains a rural phenomenon.

Poverty projections suggest Bangladesh has achieved its MDG goal of halving its poverty headcount.

Poverty patterns have dramatically changed across regions between 2000 and 2010

Poverty estimates in 2005 highlighted the need for creating economic opportunities for narrowing the development gap between the East (Chittagong, Dhaka and Sylhet) and the West (Barisal, Khulna and Rajshahi) of Bangladesh. While the East was rapidly improving and benefiting from its geographical proximity to growth poles, the Western region of Bangladesh had been lagging behind. However, the 2010 poverty estimates describe a changed Bangladesh. Between 2005 and 2010, Western divisions experienced larger reductions in poverty and also managed to reach levels of poverty that are closer to those of their Eastern counterparts. An important exception to this pattern is the Northwestern part of the country, specifically Rangpur, which has over 42 percent of its population still living below the poverty line.

This remarkable reduction in poverty was coupled with an equally impressive improvement in living conditions of the poor

In 2000, less than a third of households had access to electricity and this increased to more than half of households by 2010. The rate of increase was much greater for poorer households with connection to electricity increasing from 10 percent to 29 percent

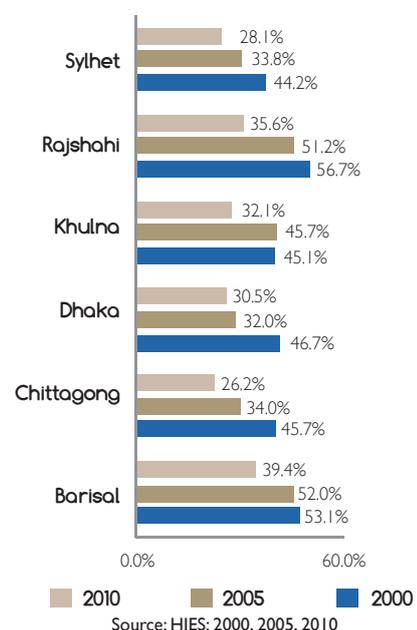
over the decade. Between 2000 and 2005, a large number of households saw an improvement in terms of the materials used in the constructions of their homes and access to services. Between 2005 and 2010, while the poor continued to improve the quality of their homes, the largest improvements for all households were in terms of the amenities households owned such as television sets and cellular phones.

Health and nutrition outcomes tell a bittersweet story

Bangladesh has witnessed a significant improvement in access to health care, the most notable achievement being the substantial decline in the immunization gap between the poor and non-poor. Despite improvements in access to health care, dietary adequacy and diversity remain key issues. The analysis suggests that low dietary diversity was a persistent problem in Bangladesh, and showed no significant change across all income groups even as the country experienced a significant decline in poverty.

Diets of relatively poor households have not improved.

Poverty headcount





Drivers of poverty reduction

Changes in both labor income and demographics were the two largest contributors to poverty reduction over the decade

Labor income was the dominant factor in delivering higher incomes and lower poverty rates (both for the poor and extreme poor). In addition, a higher share of adults in the household helped to increase income per-capita. Increases in both labor income and the share of adults in the population were also the two most important contributors to the regional poverty reduction patterns. They accounted for a larger share of the overall poverty reduction in the West relative to the East, and thus offer one possible explanation for the changing regional poverty patterns.

There were qualitative differences in how growth in labor income occurred over the decade

During the first part of the decade, the increase in wages in the non-farm sector was the most important factor contributing to poverty reduction. There were also three additional 'poverty reducing' shifts taking place: (i) workers moving from agriculture to manufacturing and services sectors, (ii) workers moving from daily and self-employed work to salaried jobs, and (iii) an increase in the level

of education of the workforce. During the second half of the decade, more of the poverty reduction occurred in the farm sector, which experienced a significant increase in labor income. This increase in labor income was not associated with higher levels of education or changes in occupation but was largely due to an increase in rural real wages.

Rising real rural wages in the second half of the decade coincided with the food price shock of 2007-08

Following the food price shock, real wages declined significantly, but by 2009 they began to increase, adjusting to a new price regime. Three years after the crisis, urban wages were still shy of their pre-price shock levels, whereas rural wages were above their pre-shock levels. These wage patterns are consistent with the findings that the growth in income experienced by rural day laborers over the 2005-2010 period contributed substantially to poverty reduction.

Growth in labor income was driven by higher returns to individual and household endowments.



Andrew Biraj

The agriculture sector while shrinking over the decade continues to employ nearly half of the workforce and provides 45 percent of the total household income.

The lower dependency ratio was largely driven by a reduction in fertility

Bangladesh's dramatic fertility decline from 3.3 children per woman in 2000 to 2.3 in 2011 is a result of an aggressive, supply-driven family planning program. Contraceptive prevalence in Bangladesh rose from a mere 8 percent in 1975 to over 61 percent in 2011. In addition changes in living arrangements driven in part by labor mobility and changing social norms also contributed to the reduction in the dependency ratio. The data shows a decline in the proportion of joint and extended households and a commensurate increase in the proportion of single, semi-single and nuclear households.

A growing share of women in the labor force contributed to poverty reduction, but further increasing their participation remains a challenge

The labor force participation rate of women, though increased from 25 percent to about 35 percent over the decade, still remains low by international standards. As in most developing countries, female labor force participation in Bangladesh increases at the higher end of the income distribution among the women who are also likely to have higher levels of educational attainment. Early marriage and early motherhood are substantial constraints to increasing female labor force participation. These findings suggest that postponing marriage could increase women's welfare over the course of their lives.

Bangladesh will soon be at the replacement level of fertility and may be at the cusp of an aging crisis within the next two decades.

There was a significant expansion in job creation in industry and services throughout the decade

However employment growth in urban areas occurred primarily for the first half of the decade only. Inadequate access to electricity and finance, the prevalence of corruption, and the lack of an adequately trained workforce remain significant bottlenecks for further business development. These constraints appear to be much more significant in Bangladesh relative to the rest of the South Asia region. The impact of corruption on the business climate cannot be overemphasized, as it directly affects investment decisions and therefore the potential for further job creation.

Demographic trends over the past decade suggest potential opportunities as well as challenges for future growth and poverty reduction through job creation

Population growth slowed down considerably over the last thirty years. Despite this slowdown, Bangladesh added 19 million people to its total population, a 15 percent increase between 2000 and 2010. The working age population expanded more rapidly than the total population, growing at an average rate of 2.3 percent between 2000 and 2010, a 25 percent increase over this period. The 'bulge' among the 5-14 year-olds in the 2010 population indicates that this trend will continue over the next decade. While a growing labor force can be an asset for income generation and growth, absorbing such a large wave of new entrants every year will pose a major challenge for the labor market.

Linking the swelling youth cohorts to productive employment either via overseas migration or in growing sectors of the economy will be critical to fully realize a "demographic dividend."

Seasonal poverty, shocks and coping mechanisms of the poor

Seasonality of consumption still prevails in Rangpur

Among the poor living in regions affected by seasonal deprivation, seasonal migration is used as a key coping strategy, though access to remittances does not constitute an important source of household income. Access to credit remains fairly limited and is generally insufficient to smooth seasonal consumption patterns. Social safety net expenditures are not well targeted towards those most in need to avert seasonal food deprivations.

Poor households living in the poorest regions are less able to cope with shocks

Household survey data show that over 50 percent of households in Bangladesh experience one or more shocks annually. Households still rely on coping mechanisms that are likely to have negative welfare consequences. Rural households are particularly vulnerable. For example, while urban households are more likely to rely on savings relative to rural households, rural households are more likely to deplete their productive assets or use high-interest loans from money lenders. When faced with climate shocks, an overwhelming majority of households are not able to effectively cope with

the shock. This is consistent with the notion that when dealing with climatic or covariate shocks households are unable to rely on community-based coping instruments.

The second half of the 2000s saw an escalation of real rural wages but the growth of urban real wages was lackluster.

Poor households are vulnerable in the short run to adverse food price shocks

Despite having increased its food grain production significantly over the past years, Bangladesh continues to rely on food grains imports to meet its domestic demand making it vulnerable to both local and global price spikes. Since 2005, prices of major food crops have been surging in the international market: between 2005 and 2008, rice prices rose by 25 percent while wheat prices by 70 percent. The nutritional intake of most Bangladeshis is negatively affected by these price shocks since 74 percent of calories consumed by an average household come from cereals. Rice alone represents more than 40 percent of total consumption for the poorest households.

Thus not surprisingly the 2007-2008 food price shock affected the poor disproportionately

Following the shock, the rural extreme poor experienced a 22 percent decline in consumption while the average effect on the non-poor was a 4 percent decline. In the medium term however, after wages adjusted to reflect the price shock, the impact of the food price shock largely equalized along the

wealth distribution. In the long term, after the price shock permeated to other sectors, particularly the service sector (the output of which is disproportionately consumed by the rich), the short term effect of the shock appears to have been moderately reversed: the population at the higher end of the income distribution was relatively more affected than those at the lower end of the distribution.

The wide spectrum of social safety net programs implemented by Bangladesh remains relatively untapped sources of poverty reduction

Poor targeting of resources and inadequacy of average safety net benefit amounts represent important obstacles for attaining further poverty reduction. Even though the safety net coverage of the poor has improved over time it still remains low: in 2010, a third of the poor participated in at least one social assistance program as compared to 21 percent in 2005. These results also suggest large scale inclusion errors among the safety net programs. The proportion of recipients who are non-poor increased from being 44 percent in 2005 to almost 60 percent in 2010. Similarly, the share of total program spending accruing to the poor dropped from 52.6 to 35.3 percent within this five year period. The average transfer adequacy is also low, and has worsened over the years: the share of real value of transfers to the total consumption level of poor households has almost halved, falling from 22 to 11 percent. Even though current benefit amounts are inadequate, if allocated to the poorest households, the total safety net budget could potentially reduce the level of poverty by as much as 4.3 percentage points.

Access to microfinance can play an important role in helping households cope with shocks

Conditional on experiencing a shock, the most common coping mechanisms adopted include the use of savings and loans. Less than 2 percent of households reported safety nets as one of the top four coping mechanisms used to face a shock. The relative importance of savings and borrowing compared to safety nets in dealing with shocks is not surprising given the vast coverage and reach of microfinance organizations operating in Bangladesh and the relatively low transfer amounts and coverage of safety nets. An important role for microfinance is in smoothing consumption. Given that Bangladesh is likely to continue to face adverse shocks, microfinance will need to continue to play an important role in helping the poor

to buffer themselves from these shocks and thereby also help reduce extreme poverty.

Microfinance disbursements reached Taka 370 billion by 2010 with a client outreach of almost 34 million.



Main policy implications

1

Increase the productivity of workers

To continue making progress in reducing poverty, it will be prudent to continue investments in improved agricultural productivity, primary schooling and human capital formation focused on low-skilled workers. Policies and programs to improve the health and education levels of those most in need will lead to lower levels of poverty in the future through improved productivity.

2

Ensure that the demand for salaried work in the manufacturing and service sectors continues to grow

Since this type of work necessitates a constant supply of skilled workers, continued efforts to expand the quantity and quality of education can go a long way in ensuring sustainable and inclusive growth. Moreover, actively promoting the rule of law, enhancing worker welfare, and improving infrastructure have great potential to generate a positive investment environment for firms to continue creating jobs at the needed pace.

3

Provide continued support to family planning programs with a strong focus on the less well-off and on delaying early marriage

Because high dependency ratios and low education levels are both closely linked with poverty, family planning programs should now refocus on the less well off, as well as on delaying early marriage and early parenthood of young girls. Improved enforcement of age-of-consent laws, in combination with educational stipends that reduce the cost for children transitioning from primary to secondary school, could help young girls from poor families to both successfully complete their secondary education and avoid early marriage. Yet, it must be underscored that “changing attitudes” will need to be the strategy that underpins all other efforts to end early marriage.

4

Improve the skills of the swelling youth cohorts to ensure they are gainfully employed

To ease the labor market pressures caused by the demographic transition, Bangladesh will need to focus more attention to the skill development of a rapidly expanding labor force, including the policies aimed at enhancing opportunities for overseas migration. Similarly, given the trends in female education outcomes and low rates of female labor force participation, a focus on creating ‘female-friendly’ jobs, work environments and labor policies will also help to facilitate a higher level of female participation in the labor force.



5

Begin preparations for aging out of the 'demographic dividend'

With an increasing number of the elderly surviving longer and tending to live alone, Bangladesh may find itself at the cusp of an aging challenge in twenty years. The positive aspect of this is that Bangladesh has some time to prepare and to put in place programs and policies that can protect its elderly in a manner that is both fiscally sustainable and culturally appropriate.

6

Improve the linkage between safety nets and poverty reduction

To be more effective, safety net programs need to be: (i) better timed to more adequately address adverse effects of shocks, (ii) better targeted to ensure that benefits are primarily received by the poor, and (iii) better tailored to meet the specific needs of the poor. Consolidation of safety net programs in Bangladesh along these three principles would not only improve the quality of public expenditures but will allow increased benefit levels that are needed for further poverty reduction.

7

Address persistent seasonal shocks and global commodity price volatility more effectively

Further deepening of micro-lending and safety nets in terms of both coverage and improved targeting will help poor households smooth their consumption to mitigate seasonality of income, particularly in the ecologically vulnerable regions such as Rangpur. This will mean further improving the performance and scope of large seasonal employment generation programs such as Food for Works, Test Relief and the Employment Generation Program for the Poorest, and of subsidized sale of food grains for the poor such as the Open Market Sales Program.

8

Link cash based transfers to human capital formation among the poor

Safety net programs have gradually shifted from providing food to cash transfers in recognition of the fact that the latter are more cost effective. Linking this larger pool of cash transfers to human development outcomes is likely to improve the quality of social protection expenditures. Particular emphasis needs to be placed on programs and policies that focus on: (i) early childhood development in a way that integrates health and nutrition services, early stimulation and learning, and pre-school education, and (ii) building the skills and improving the employability of the poor youth.

Read the Bangladesh Poverty Assessment 2000-2010
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