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National Policy Brief: Bangladesh

A surprising turnaround? Rethinking lessons in tackling chronic and extreme poverty in Bangladesh

- **Over the last 25 years the poorest people in Bangladesh have seen considerable improvements in their incomes, levels of education and health.**
- **A reduction in the fertility rate, children staying in school longer, improved agricultural productivity and migration from rural to urban areas have all contributed to higher rural wages.**
- **Urban wages have also increased, including in sectors where the poorest frequently work, thanks largely to increased levels of construction and a vibrant ready-made garment industry.**
- **Innovative NGO and donor programmes which transfer substantial resources to the poorest households, alongside interventions to improve literacy, market linkages and entrepreneurial skills have been important to reducing poverty rates. The successful programmes should now be replicated to cover *all* extreme and chronically poor groups.**
- **Favourable economic conditions that have been central to poverty reduction so far must be maintained by supporting the five major drivers of growth: developments in agriculture, the rural non-farm sector, exports, remittances and managing urbanisation.**
- **There is both need and scope to increase tax revenue (currently only 12% of GDP) to pay for scaling-up investments in human development, social protection and pro-poorest economic growth required to end extreme poverty.**

Shifting images of Bangladesh

During the 1970s and 1980s, Bangladesh experienced war, famine, recurrent disasters and a protracted period of authoritarian rule. It was referred to as a 'test case of development' (Faaland and Parkinson, 1975) and pronounced to be stuck in a 'below-poverty level equilibrium trap' (Alamgir, 1978). By the mid-2000s though, Bangladesh had turned around its fortunes, being a 'development surprise' (Devarajan, 2005), and towards the end of the 2000s was seen as one of the 'next 11' world's largest economies in a ranking by Goldman and Sachs.

This turnaround came with the backdrop of sustained growth in per capita GDP of around 4-4.5% for a decade. The poverty headcount declined rapidly from 62% in 1991/92 to 32% in 2010. With over 1000 USD per capita, Bangladesh is fast approaching the target of Middle Income status. Human development progress has been even more striking with significant reductions in child mortality, total fertility rate, maternal malnutrition and maternal mortality, as well as female schooling expanding at a rapid pace to achieve more than parity with that for males.

Success at tackling chronic and extreme poverty

The proportion of households living below the 'lower poverty line', or national food poverty line, declined from 41% in 1991/92 to 18% in 2010. In both rural and urban areas, this progress has accelerated in recent decades. In the 1990s the annual poverty reduction rate of food poverty was 1.8%, compared to 4.8% in the 2000s.

Box 1: Measuring chronic poverty reduction

To measure progress at chronic poverty reduction nationally representative panel data, or surveys that return to the same households at more than one point in time, are needed. As Bangladesh does not have such data, this policy brief reports on progress by the poorest households in the country: those living below the national food poverty line (taken from national household income and expenditure survey) and the poorest wealth quintile (as identified in Demographic and Health Surveys) to give an indication of how the chronically poor have fared.

Human development of Bangladesh's poorest people has improved considerably over the past two decades. Firstly, illiteracy among people living below the food poverty line has declined from 64% to 46% in just seven years. Secondly, infant and child mortality rates for the poorest have fallen impressively. The under-five mortality rate dropped impressively from 121 deaths per 1000 live births in 2004 to 64 in 2011 (Table 1). Thirdly, women from the poorest group now have better access to reproductive healthcare, with the proportion of those with access to antenatal care rising from 34% to 48% between 2004 and 2011.

The poorest areas of Bangladesh have made significant progress for a number of reasons:

- The rapid economic growth and social progress experienced in the country since the early 1990s has been inclusive of remote areas. The poorest 40 upazillas (sub-districts) initially identified in 1991 have exhibited progress in education and health indicators (BBS 2013), and in real wages.
- These areas have been the subject of targeted programmes and activities carried out by NGOs.
- A number of important political representatives have been elected from poor constituencies who have successfully lobbied to allocate public resources, and even NGO programmes, for the poor areas. Political competition even under imperfect but sustained democracy creates a favourable environment for attacking chronic poverty.

Table 1:Trends in infant and child mortality (per 1000 live births)

Wealth Quintile	Infant Mortality			Child Mortality			Under-5 Mortality		
	2004	2007	2011	2004	2007	2011	2004	2007	2011
Poorest	90	66	50	34	22	15	121	86	64
Second	66	67	51	34	19	15	98	85	64
Middle	75	63	41	23	22	9	97	83	49
Fourth	59	46	38	23	16	10	81	62	48
Wealthiest	65	36	29	7	8	8	72	43	37
Total	**65**	**52**	**43**	**24**	**14**	**11**	**88**	**65**	**53**

Table 2: Rural Real Wages by Gender and Season (HIES)

Year	Peak Season		Lean Season	
	Male	Female	Male	Female
2010	193.55	141.03	154.16	112.57
2005	133.66	84.87	105.52	71.13
2000	134.01	92.25	106.60	76.31
1995	128.57	84.72	101.49	71.20
Growth rate from 2000 to 2010 (%)	44.43	52.88	44.62	47.52

Source: Zhang et al (2013). Calculated using the general consumer price index.

Drivers of improvements in the situation of the poorest people

New job and income-earning opportunities, combined with real gains in daily wage rates, have been key drivers of progress for the poorest people.

Increased rural wage rates

Agricultural wage labour comprises a significant component of household income for the poorest people, who are often functionally landless. Real wages in rural areas (both agricultural and non-agricultural) increased during the 2000s (Table 2). The rice value of the daily wage received per day remained largely constant during the 1980s and increased only modestly in the 1990s (from 3.5 kg in 1990/91 to 4.5 kg in 1999/90). The real breakthrough came only in the second half of the 2000s: the rice wage per day remained at 8-10kg during the 2008-13 period.

Rising land and labour productivity and growth in rice agriculture in the 2000s had beneficial effects on the real agricultural wage rate and subsequently, on rural poverty. In 1988, agricultural wage income was 95% higher in places where agriculture incorporated modern technologies than in those that relied on traditional rice cultivation techniques. This difference declined over time to being 60% higher in 2000 (Hossain and Bayes 2009). Also, increases in the agricultural wage rate tend to be faster in villages experiencing high growth in land productivity (Hossain et al. 2013). Migration (both domestic and international) has also contributed to the rise in agricultural and rural wages for the remaining workers in rural areas.

The tightening of the agricultural wage labour market has contributed to increased non-farm employment opportunities for the extreme and chronic poor through two principal channels:

(a) **Relocation of farm labour to rural non-farm sectors.** The spread of new technology in rice agriculture has released workers for higher productivity non-farm work. In 2008, in villages with high land productivity, the proportion of household heads with farming as their main occupation was 39% compared to 47% in villages with low land productivity. (Hossain et al. 2013).

(b) **Relocation of rural labour to urban activities.** Between 2001 and 2011, the share of the population living in urban areas increased from 20% to 28%. Urban real wages have also increased (see Table 3). International migration and remittances have contributed to an increased level of construction and real estate development, which has in turn generated demand for domestic migrant labour, benefitting the chronically poor. The rural-urban relocation of labour also benefited from the growth of export-oriented manufacturing, including the ready-made garment industry, which currently employs about four million workers (75% of whom are first-generation female rural-urban migrants mostly from poor families).

Table 3: Urban real daily wages by gender (HIES)

	Male	Female	National
2010	253.43	223.21	245.11
2005	230.33	216.51	225.24
2000	203.23	129.26	194.07
Growth rate from 2000 to 2005 (%)	13.33	67.50	16.06
Growth rate from 2005 to 2010 (%)	10.03	3.09	8.82
Growth rate from 2000 to 2010 (%)	24.70	72.68	26.30

Source: Zhang et al (2013)

Migration has directly and indirectly benefitted the chronically poor. Most domestic migrants belong to landless and functionally landless households. The latter accounted for 51% of domestic migrants in 2000 and 57% in 2008.

Despite the high up-front costs of international migration, the share of the two lowest land-owning groups in rural areas (owning up to 0.40 ha) among rural households reporting international migrants increased considerably, from 38% in 2000 to 54% in 2008 (Hossain et al., 2013). The share of migrants with 'no formal schooling' among households with overseas migrants has increased from 29% to 40% during the same period.

For casual agricultural labourers who have limited resources to migrate overseas, it is the indirect effects of international migration through the channel of the labour market that are of greater significance. Wage growth tends to be faster in villages experiencing high growth in overseas remittances. Meanwhile, remittances are one key driver of construction jobs in urban areas.

Improvements in access to health care and education for the poorest people have been driven by a pluralistic health system. Since the 1990s the total fertility rate has declined across all wealth quintiles, facilitated by a public social policy of using family planning workers to visit households and offer modern family planning methods at a subsidised price (Cleland, 1994). This was further aided by social interactions in densely populated communities supported by organised NGO and self-help groups. Bangladesh now has an enormous network of community health workers who cover most households and provide innovations in oral-rehydration therapy, vitamin A supplementation, tuberculosis and maternal and child health (Adams et al., 2013).

Looking to the future: eradicating chronic and extreme poverty by 2022

The recently published *Manifesto for the Extreme Poor* (Shiree, 2013) demands the eradication of extreme poverty by 2022, a year after the country's goal of reaching Middle Income status. Eradicating chronic and extreme poverty will involve several measures:

1. Maintaining the favourable economic and social conditions that underpinned the decline in extreme and chronic poverty.

Over the last two decades per capita growth accelerated and with minimal volatility; inflation remained within single-digits; domestic industrial entrepreneurship developed; exports and remittances increased; and an English educated urban middle class started to make its presence felt in the economy and media. In this milieu of new affluence combined with proud nationalism, it was possible to develop broad-based policies of human development and social protection programmes for the poorest groups.

Maintaining a favourable economic context for chronic poverty reduction means sustaining the five major drivers of growth— (i) agriculture (requiring research and development and the adoption of new technologies), (ii) the rural non-farm sector (dependent on developing linkages with urban markets), (iii) exports (maintaining factory compliance of working conditions is important), (iv) remittances (requiring easing finance barriers and labour skilling to promote overseas work beyond traditional destinations) and (v) managing urbanisation.

These measures are necessary to attain the national target of becoming a Middle Income Country by 2021. But, the central point is to maintain current patterns of stable and decent poverty-reducing growth to contribute to further pro-poor transformations in terms of labour market tightening and service delivery.

2. Replicating successes in attacking extreme and chronic poverty.

There have been several small scale successes in the area of poverty reduction (as in case of targeted microfinance by Grameen, BRAC and ASA), and in that of human development (such as the female stipend schemes, immunisation programs and family planning).

Since the 2000s there have also been innovative programmes specifically to combat extreme and chronic poverty. These include BRAC's Targeting the Ultra Poor programme, Urban Partnerships for Poverty Reduction, DSK-Shiree and the *Chars* Livelihoods Programme. A defining marker of many of these programmes is that they aimed to provide consequential transfer of resources (assets or financial savings) to extreme poor households. The size of the needed transfer is reckoned to be USD 400-500 per beneficiary spread over 1.5-2 years of programme intervention. This amount of money, if properly executed and combined with a package of support including a provision to build literacy, financial and marketing skills and building organisations for the poorest people, can lift an extremely poor household from extreme and chronic poverty (on this, see Sen, 2012).

The aim should be now to replicate - and modify where applicable - these programmes to cover *all extreme and chronically poor groups*. Such an approach, while ambitious, would be financially possible. Every year the total costs of such replication would not exceed 2% of GDP annually, permitting the escape of 6 million extreme poor per year (altogether 36 million extreme poor in 2015-21) from the grip of extreme and chronic poverty (Shiree 2013).

3. Addressing the growing human development needs of the extreme and chronic poor

There are areas of progress in human development that have in the past tended to bypass the extreme and chronic poor. While access to antenatal care improved for the lowest wealth quintile, access to antenatal care from 'medically trained providers' remained at 30% between 2007 and 2011. Child nutrition is another area where the poorest households made only modest improvements. DHS data shows that the proportion of children underweight in the lowest wealth quintile has dropped from 59% to 51% during 2004-2007, but remained at that level in 2011.

As incomes increase, the demand by chronically poor people for human development needs, including quality education and healthcare, will also increase. Quality services are a concern for all wealth groups, but it particularly affects the poorest people because they lack supplementary resources to invest in private tutoring to compensate for the quality deficiency in the public schools or to pay for private healthcare. As incomes increase, it is likely that there will be a change in the behaviour of those seeking health care - demanding higher quality services and shifting away from traditional quacks to modern or alternative medicine. However, this increased demand is barely or inadequately met by either market or public health services.

Some of the human development targets require social change and cannot be addressed by policy alone. Making breakthroughs in these areas can take a long time and will require innovative norms-changing institutional interventions. High prevalence of dowry, for instance, leads to early marriage: in 70% of cases in rural Bangladesh, the age that women first marry tends to be below the legally permissible age of 18. The extreme and chronic poor are particularly affected by this, as they tend to allow their daughters to be married at a relatively early age

to avoid high dowry payments that come with marriage at a higher age.

4. Scaling-up social protection schemes and making them inclusive to prioritise the extreme and chronic poor.

There are currently 95 social protection schemes--large, small and very small— which comprise up to 2.2% of GDP. A bulk of the resources earmarked for these programmes is prone to leakage, and does not reach the intended beneficiaries.

Renewed policy emphasis on social protection is welcome, provided reform of social protection along a life cycle approach means that the poorest people will be served first. This principle also requires social protection to become more broad-based as it becomes more affordable over time. Fiscal affordability, in turn, depends on the strength of the tax and tax-financed instruments. Here Bangladesh, with a tax-GDP share of 12%, has a way to go, suffering from one of the lowest tax revenues (7% lower than India, for instance).

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This policy brief was written by Binayak Sen and Zulfiqar Ali