



Chronic Poverty
Research Centre

Chronic Poverty Research in Bangladesh: Key Findings and Implications for Policy

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Strategies for eradicating poverty in LDCs:
Findings from research by the Chronic Poverty Research Centre

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From “Test Case of Development” to the Top of the LDC Group

- A Different LDC: manufactured exports accounting for 80% of exports and with Aid-GDP ratio of only 1.9% and External Debt-GDP ratio of only 18%
- Country in the Medium Human Development League. Met key MDGs including primary and secondary enrollment, infant and child mortality, and gender parity in education
- Country is on track on meeting the poverty and maternal mortality targets

Growth Performance of the Bangladesh Economy: 1990 to 2010
(average growth rate per annum)

	1990- 2000	2000- 2005	2005- 2010
GDP per capita	3.1	4.0	4.8
Agricultural GDP	3.2	2.5	4.2

Key Issues for Bangladesh Chronic Poverty Research

- Why chronic poverty persists among general trends of growth acceleration, poverty reduction and progress in MDGs?
- Is inequality a concern for the reduction of chronic poverty?
 - Through what channels—inequality of assets, inequality of opportunity, inequality of access to financial capital, inequality of income transfers, inequality of political inclusion (among different ethnicities), or of access to justice?
- Are there poverty traps (“threshold effects”)? Why some traps are more stubborn than others for the chronic poor?
 - Initial parental capital and IGT, initial physical capital, initial human capital, initial level of maternal and child undernutrition, “adverse demography” (high dependency, old age, child labour, abandoned women), adverse identity politics, or low initial wage itself ?

Key Issues for Bangladesh Chronic Poverty Research

- Exogenous shocks matter, but
 - Why some shocks—health and dowry—are more important than others for the chronic poor?
- Environmental poverty matters, but
 - Why some environmental conditions—coastal vs. flood-prone vs. river-erosion vs. drought-prone areas—are more adverse than others for the chronic poor?
- Why public policies are marked by “tokenism” and fail to address chronic poverty even at the discourse level?
 - Is governance—low taxation and quality of expenditure targeting—a main constraint to redistributive policy?
- Need for a range of new innovative policies for addressing chronic poverty
 - Universal social protection (NREGA type scheme, health smart card; shelter); Land policy and access to land tenure, MFI for the poorest; property tax; access to international migration slum up-gradation, access to primary shares, social business enterprises, inclusive local governance

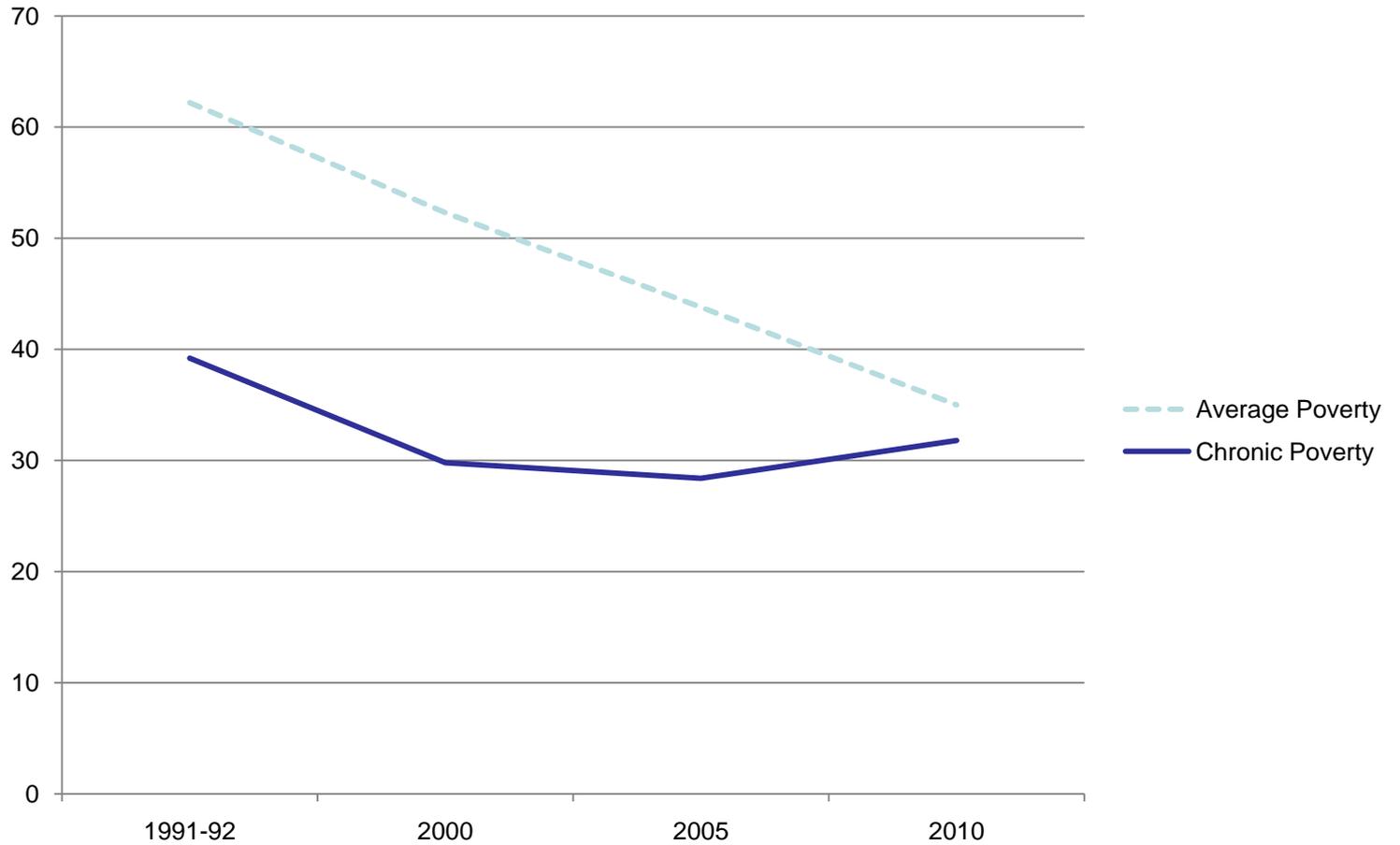
Logic of persistence: Inequality and Unsustainable Livelihood

- **The “moment of arrival” of chronic poverty in the development discourse in Bangladesh**
- ***Growth with Sharp rise in Inequality...***
- Poverty continues to drop, but with persistent chronic poverty and sharply rising inequality
- Drivers of rural growth are: agriculture, remittance, non-farm self-employment, salaried work where chronic poor’s share is negligible
- Savings, assets and credit are highly unequally distributed—chronic poor are left out
- High inequality, misgovernance and environmental degradation are inter-linked
- ***In addition, unsustainable livelihood of the chronic poor...***
- Chronic poor’s occupational choices are around activities that are more health damaging
- Chronic poor live in poor environments with activities that are least productive with most volatile incomes
- Wages are too low—even in high growth export sectors and hence cannot dent on (rural) chronic poverty vi private transfer channel
- Parental conditions matter
- Hence, even with growth and some poverty reduction there is persistence of chronic poverty

Average Poverty vs. Chronic Poverty: Insights from Panel Data

- Average poverty declined from 81% in 1973/74 to 59% in 1991/92, 51% in 1995/96, 49% in 1999/00, 40% in 2005, and 32% in 2010
- Chronic poverty incidence has also dropped from 39% to 31% in the last two decades i.e. only marginally
- See, Graph 1: *We shall have to now deal mainly with the chronic poor now than it was the case before*
- Income inequality is on rise: as measured by the Gini coefficient, rural income inequality has increased from 0.35 in 2000 to 0.46 in 2010. This means that *the distributional condition for fighting chronic poverty is not favourable*

Trends in Average vs. Chronic Poverty



Why Inequality is a Concern in Chronic Poverty?

- Divergent trends in consumption and income inequality indicate **huge gaps in savings (and asset accumulation)**, especially for the chronic poor

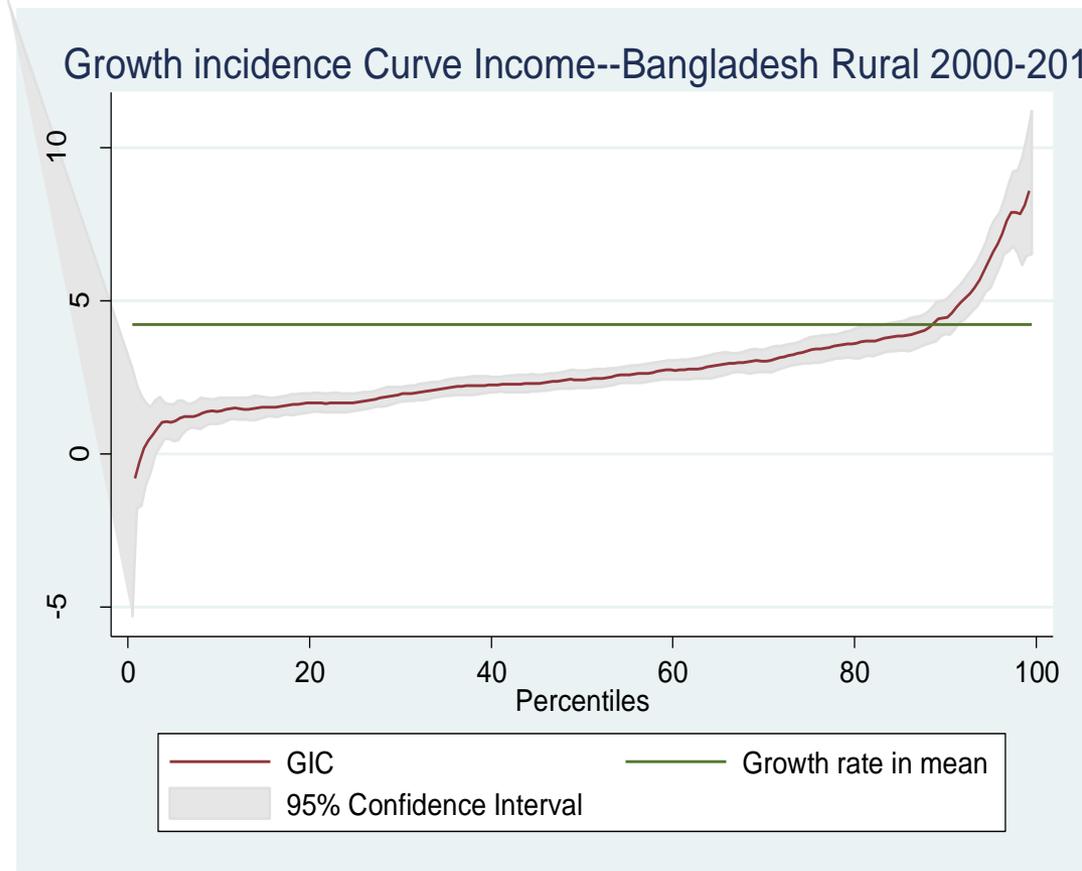
Evolution of Inequality in Rural Bangladesh: 1991/92 – 2010
(Gini coefficient)

Distribution	1991/92	1995/96	2000	2005	2010
Per capita income	0.276	0.310	0.356	0.404	0.465
Per capita consumption	0.249	0.277	0.281	0.280	0.284

Why Inequality is a Concern in Chronic Poverty?

- Chronic poor's share is negligible in the main drivers of rural income growth are: **agriculture, remittance from abroad, non-farm self-employment, and salaried work**

• Growth incidence Curve Income--Bangladesh Rural 2000-2010



Adverse Initial Conditions or Poverty Traps?

- Initial current generation conditions also matter...
 - **Chronic poor has lower initial land and non-land capital as well as lower human capital compared to the movers both in 1987-2000 spell and in 2005-2010 spells**
 - **Chronic poor has lower access to credit than the movers**
- Movers vs. Chronic Poor analysis for 2005-2010 shows:
 - **Access to non-land assets is especially important:** non-land assets have twice as higher effects than land assets on the escape probability
 - **Access to tenure in land is also important:** share of **land under tenancy has doubled** over the past two decades, but *it benefited mainly the moderate poor, not the chronic poor* who lack savings to lease in land from the middle and the rich households in rural areas

Adverse Initial Conditions or Poverty Traps?

- Initial Intergenerational parental conditions also matter...
 - The results suggest strong partial correlation between son's assets and parental assets (**0.55 for education and 0.70 for land**) controlling for household demography and geographical fixed effects. This is true for human capital, land, non-land assets
 - Parental human capital is an important explanator of mover's dynamics: one year of extra schooling of father is associated with 5% higher probability of escaping poverty controlling for son's education, initial land and non-land assets, household demography and geographical fixed effects.
 - This is also true for occupational choice: Intergenerational occupational persistence has strong bearing on poverty escape probability in current generation: **sons of fathers whose occupation were non-farm self-employment have 60% higher probability of escape from poverty** compared to fathers whose occupation related to farm wage-work (*this is true with and without additional control for son's occupation*)



Inter-generational Occupational persistence

Father's Occupation (Farm Wage as Reference Category)	Son's Occupation: Farm Wage	Son's Occupation: Non-Farm Self- Employment	Son's Occupation: Non-Farm Wage
Farm Self- Employment	.1895651***	.3830081***	.5543692**
Non-Farm Self-Employment	.5940835**	2.237424***	1.358638
Non-Farm Wage	.5399876**	1.13801	3.011239***

Note: The results represent multinomial logistic estimates where son's occupation is the dependent variable (with son's farm self-employment as base outcome). The model controls for a range of variables of household demography and geographic fixed effects. The statistical significance takes into account the clustered standard errors.

Which Shocks Matter for Chronic Poverty?

- For poverty escape, the following shocks have negative influence:
 - health shocks (death of earning member);
 - ecological shocks such as river erosion;
 - governance shocks such as litigation costs, court expenses; and
 - transfer shocks related to exclusion from targeted programs

Undernutrition, Dowry and Chronic Poverty: New Evidence

- Maternal malnutrition is a causal factor of chronic poverty via child undernutrition, low schooling and poor occupational choice
- Dowry is a dragging factor for the chronic poor; bride's and groom's education has not much influence on dowry incidence
- Dowry rate is lower for adolescent girls and increases with woman's age, which leads to early marriage in the chronic poor households
- Early marriage below the age 18 leads to high maternal and child undernutrition rate
- Women's agency via increased female education and increased work status thus partly solves the problem



Policies for Chronic Poverty

- **Against Tokenism in income transfers**
 - Current monthly allocations to safety net programs such as pension schemes and stipend schemes are equivalent to only 2-3 days of daily agricultural wage rate
 - Such token transfers cannot reduce chronic poverty
 - Tax-GDP ratio is only 11% and hence, governance in tax administration is necessary for better tax collection and introduction of new forms of taxation such as property tax to increase contributions of the rich for social protection
- **Need for Universal Social Protection**
 - **Reducing the vulnerability of specific chronic poverty groups** such as old-age, the disabled and the indigenous population/ marginalized ethnicities. Old age group is vulnerable: 55% of the parents who live separately from the adult son receive no assistance from their adult sons
 - **NREGA type of guaranteed work** scheme
 - **Savings and microfinance for the ultra-poor** with flexible repayment schedule and group inclusion modalities



Policies for Chronic Poverty

- **Innovative health insurance products** against major and catastrophic illnesses
- **Distribution of *Khas* (vested) land for creating shelter** for the rural and urban poor
- **Foster Early Exit Policies from Unsustainable Livelihoods**
 - **New savings and credit programs for the urban chronic poor** through the triad of community mobilization, NGOs and local governments, especially in large and medium-sized cities which are destinations of migration on the part of chronic poor
 - **Wages in export and other sectors should be in line with the growth in the sector and automatically adjusted with inflation** to prevent fall in real wages, thus increasing the dent on chronic poverty
 - **Those in hazardous occupations should get early exit** from the sector for sustainable poverty reduction
- **Strengthen Women's Agency for Eradicating Chronic Poverty**
 - **Foster economic empowerment of women**, including those who have received some education already but outside of the labor market



Policies for Chronic Poverty

- **Focus on Coastal and River Erosion Areas** as they have higher average poverty than the rest of the country
- **Remove quality-inequality in education** that exists between the children of the chronic poor and other social groups
- **Monitor periodically trends and profile in chronic poverty in both rural and urban areas** as matters not to be subsumed under the generalized rubric of chronic poverty