



## Fighting chronic and extreme poverty in Bangladesh: implications for the second generation Poverty Reduction Strategy Paper

### Key policies for reducing chronic poverty in Bangladesh

- **Employment generation** for the poorest, particularly during lean seasons and in particularly deprived regions and local areas.
- **Food/cash transfer programmes** for those who are unable to participate in employment generation programmes because of young or old age, impairment, ill-health or care-giving duties.
- **Self-employment schemes**, supported by microfinance and other services, for the poorest women, many of whom find it difficult to participate in physical wage labour because of social and religious conservatism and care-giving duties.
- **Development of human capital** through conditionality requirements in programmes, in order to challenge the intergenerational transmission of poverty, for example by making children's immunisation and attendance at school and health clinics a condition of programmes.
- **Improved access to quality education for the poorest.** Not only are the poor, and especially the poorest, less likely to access and continue in school, and the poorest less likely to access stipends, but the quality of education accessed by poor children is far inferior to that by the non-poor. Limited and poor quality education for the poor and poorest exacerbates the intergenerational transmission of poverty.
- **Discouraging unsustainable livelihoods and child labour.** Many millions of the poorest adults and children are involved in activities such as rickshaw-pulling that are both highly labour intensive and not very productive, and as such, unsustainable. Encouraging uptake of more sustainable livelihoods may involve the facilitation of intermediate technologies (transport, communication, cooking, etc.) as well as social protection conditional on children's health and education.
- **Improved national, regional and local governance, and improved citizenship for the poorest.** Required for the poorest to demand the resources and services to which they have a right, and to replace their adverse relationships with patrons with more positive forms of social capital. Improved accessibility of information technology may also play a role in this process.

#### What is Chronic Poverty?

The distinguishing feature of chronic poverty is extended duration in absolute poverty. Therefore, chronically poor people always, or usually, live below a poverty line, which is normally defined in terms of a money indicator (e.g. consumption, income, etc.), but could also be defined in terms of wider or subjective aspects of deprivation. This is different from the transitorily poor, who move in and out of poverty, or only occasionally fall below the poverty line.



The Government of Bangladesh is currently in the process of preparing the second Poverty Reduction Strategy Paper. In order to inform this process, this policy brief summarises the poverty situation in Bangladesh with a special focus on chronic and extreme poverty, and suggests key policies for speeding up the reduction of chronic and extreme poverty.

## Introduction

Bangladesh has achieved notable progress in reducing income poverty over the last decade and a half. During the 1990s, the poverty reduction rate was about one percentage point per year, and during 2000 to 2005, the annual rate had risen to about two percentage points (BBS, 2007).

However, in order to sustain the pace of poverty reduction in Bangladesh in the coming years, several factors must be taken into account by policymakers.

- First, although the overall poverty reduction rate is somewhat impressive, **the level of extreme poverty has remained largely unchanged** at around 20 percent between 2000 and 2005. This suggests that the poverty reduction initiatives in place have been able to help the moderately poor to move out of poverty, but not the extremely poor. In order to sustain the current pace of poverty reduction into the future therefore requires poverty reduction strategies to focus on the needs of chronically and extremely poor households.
- Second, the **food security** issue has featured prominently in recent times. In Bangladesh as internationally, prices of essential commodities, especially food, have gone up substantially over recent years, skyrocketing in 2008. Food insecurity has thus risen, especially for the poorest. If the challenge of food insecurity cannot be addressed adequately, poverty reduction initiatives may not be able to achieve their stated objectives.

## Chronic and extreme poverty in Bangladesh

Chronic poverty is defined as a situation where people live in poverty for a prolonged period of time; it often spans generations. Extreme poverty is 'deep' poverty, i.e., at the bottom of the poverty ladder.

The 2005 Household Income and Expenditure Survey (HIES) estimates suggest that approximately 40 percent of people live in poverty in Bangladesh – 43.8 percent in rural areas, and 28.4 percent in urban areas.<sup>1</sup> At the same time as the poverty

headcount is significantly higher in rural areas, it is also declining faster there, by 8.5 percentage points, compared with 6.8 percentage points in urban areas, between 2000 and 2005. HIES 2005 also estimates that approximately 27 million people – or about 19.5 percent of the population – live in extreme poverty.<sup>2</sup> Due to recent price hikes of essential commodities, particularly staple foods (cereals), it is anticipated that real incomes, particularly among the poor and vulnerable non-poor, have declined. Thus, the poverty situation is assumed to have worsened over the past few months.

Significant regional differences in poverty rates also exist: poverty ranges from 52 percent in Barisal division, down to 33.8 percent in Sylhet division (BBS, 2007). Also, while there has been a reduction in poverty of approximately 14.7 percentage points in Dhaka division between 2000 and 2005, poverty actually *increased* by 0.6 percentage points in Khulna division.

It has been estimated that 31 percent of the rural population – or at least 25 to 30 million Bangladeshi citizens – suffer the indignity of chronic poverty: i.e. low consumption, hunger and undernutrition, lack of access to basic health services, illiteracy and other deprivations for over a decade (Sen and Hulme, 2006). About ten percent of rural households subsist on two meals or less for a number of months every year. While Bangladesh has come out of the "shadow of famine", the problem of starvation persists.

In order to interrupt chronic and intergenerational poverty, it is crucial that policymakers understand the factors responsible for keeping people in poverty, or helping them escape its grip. Sen and Hulme (2006) found that these factors differ. Poverty escapes are made significantly more likely by the accumulation of human, physical and financial assets, and diversification of economic activities both within and outside the agricultural sector. Poverty persistence, on the other hand, is correlated with adverse changes in household structure (e.g. increases in the dependency ratio) and the incidence of shocks (including health shocks, environmental disasters, and violence, at both the domestic and community levels), as well as being unable to adopt improved agricultural practices or diversify out of agriculture, and falls in natural and financial assets. 'Unsustainable livelihoods' – such as those of urban rickshaw pullers and child labourers – whereby people destroy their human capital in order to make a living, thus undermining their future wellbeing – can also sustain poverty over years and generations.

In order to keep people out of chronic poverty it is thus crucial to help poor people manage shocks more effectively, and to create a livelihood base from

which they can take advantage of the opportunities that a growing economy offers. Policies and interventions to support this process include social protection schemes, food security measures, improved access to health and other services, better governance and improvements in law and order, as well as fostering changing attitudes around, for example, health behaviour and dowry.

One way of investigating poverty that persists across generations is through a focus on the wellbeing of women and their children. Maternal nutritional status is a strong predictor of child nutritional status (and thus children's educational status and productivity across their life-course). Women's health and wellbeing are therefore important factors for interrupting the intergenerational transmission of poverty, and policy initiatives combining income poverty reduction with women's empowerment and access to services are likely to be highly effective.

However, there are many barriers to the participation of the poorest in terms of benefiting from opportunities, including lack of access to education and microfinance. Market conditions which limit the participation of those with few physical assets, limited access to collective physical infrastructure and a lack of supportive social networks, also play a role. Helping the poorest improve their own human capital – and that of their children – as well as access to financial services and markets for goods and labour can help them increase their ability to seize opportunities and escape persistent poverty.

## Pro-poorest growth strategy

Pro-poor or pro-poorest growth is not equivalent to overall growth, particularly in those countries such as Bangladesh where inequality is on the rise. If per capita income among the poorest does not rise at least as much as that of the non-poor, then growth cannot be considered as pro-poorest. Bangladesh has achieved considerable acceleration in the rate of pro-poor growth in the 1990s compared with the 1980s, and that against the backdrop of rising inequality. However, if the progress of Bangladesh is compared with that of India and China,<sup>3</sup> it is evident that Bangladesh has a long way to go to achieve its pro-poor growth agenda (Sen *et al.*, 2004).

While examining the factors that drove the pro-poor growth achieved in the 1990s, Sen *et al.*, (2004) found that the following factors contributed significantly:

- stable macroeconomic and decent export performance;
- large and sustained inflows of overseas remittances;
- the creation of fiscal space for pro-poor public expenditure;
- higher budget allocations for basic education and health;

- support for technological progress in agriculture;
- better vulnerability management (e.g. vulnerability to floods);
- the development of access to natural assets such as land through the mediation of tenancy markets (especially favourable input cost sharing and fixed rental arrangements);
- increased access to non-farm and non-agricultural occupations;
- access for the poor to human capital (at least a completed primary education);
- access for the poor to infrastructure such as roads and electricity;
- moves towards gender equality; and
- the presence of vibrant civil society organisations .

For achieving accelerated pro-poor growth in future, the following strategies are suggested:

- structural changes in society, involving industrialisation;
- greater emphasis on women's advancement in the economic, social and political arenas, and women's active participation in all walks of life;
- a more developed private sector with the major share of the workforce engaged in the modern sector;
- greater openness to and closer integration with the forces of international trade and capital movement;
- effective debt management covering both internal and external debts;
- stepping up tax efforts to strengthen the government's resource base, including broadening the tax base, withdrawal of taxes that hurt the poor, and reforming tax administration;
- improving the performance of public financial institutions;
- promotion of small and medium industries, agro-processing, information technology, and diversified exports;
- shifting focus from relief and rehabilitation to vulnerability management;
- supporting non-farm activities in both rural and urban areas; and
- undertaking capability enhancing measures for the poorest in both rural and urban areas.

## Human development for the poorest

Access to human capital is a well-recognised vehicle for intergenerational mobility. However, chronically and extremely poor households not only possess low initial levels of human capital, but also experience slower rates of accumulation than moderately poor people. Due to their



low incomes, accumulation of human capital among chronically and extremely poor people depends on the degree of accessibility of public educational and health facilities.

Yet some initiatives to include the poorest in the educational system have not been fully successful. For example, Sen and Hulme (2006) observed that at both primary and secondary levels, extremely poor households are much more likely to contain dropouts than stipend holders. Those who cannot afford to eat three meals a day are 1.5 times as likely to drop out of primary school than those who can, and twice as likely to drop out of secondary school.

In order to help the persistently poorest accumulate human capital relatively quickly, a number of policies can be adopted, including:

- providing quality primary education and health care in combination with facilitating access to different assets;
- increasing resources for basic education and health for the poorest from within overall intersectoral public spending;
- undertaking redistributive measures in order to curtail the power of the rich and empower the poorest;
- acknowledging and supporting the indigenous knowledge and skills that many of the poorest possess (e.g. fishermen); and
- Improving Tax Efforts and Increasing Allocations for the Poorest.

Although the share of social sector spending in total public expenditure in Bangladesh has been increasing throughout the 1990s, it is still low in Bangladesh, even by South Asian standards. Sri Lanka is, of course, an exception, but Bangladesh also lags behind India in this respect. This suggests that a scarcity of resources is a major limiting factor in improving basic services for the poor in Bangladesh.

The capacity of the Government of Bangladesh to mobilise domestic resources is severely constrained by the country's narrow tax base and very low ratio of tax to non-tax payers. Moreover, the size of the informal sector falling outside the tax net is also quite high relative to the GDP of the country. However, the tax effort of the country is generally very low compared with its potential. Indeed, it is even poorer than that of Nepal, with a lower per capital income.

In order to improve the tax effort, it is essential to carry out major reforms, including the following elements:

- increasing tax revenue to GDP ratio;
- providing incentives for savings, investment, export and efficient production;
- ensuring progressivity in incidence; and

- strengthening administrative capacity.

The above elements can easily be achieved by implementing a broad-based taxation of *consumption* rather than imports, and a shift in the pattern of taxation by moving away from the taxation of inputs and towards outputs, so as to minimise distortions in production choices. Thus, a major share of tax revenue will have to come from direct taxes and taxes on domestic goods and services, which will improve equity and efficiency of the existing tax system in Bangladesh (Chowdhury and Ali, 2006).

## Spatially disaggregated policies for poverty reduction

Although it has long been recognised that the poor and poorest are not equally spread through all regions of Bangladesh, new research shows that the geography of extreme and chronic poverty is changing. While all districts showed improvements in the Human Poverty Index between 1995 and 2003, the rate of improvement varies significantly, from a negligible 0.25 percent for Cox's Bazaar to 3.92 percent for Bandarban (Ali and Begum, 2006). Some regions, including Rajshahi in the northwest, have the deepest and most persistent poverty, but patterns also vary considerably within these large units. The analysis and targeting that informs policy must therefore go beyond these broad regions and focus on the *upazila* level, and on the pockets of poverty within most rural districts and urban areas.

The factors responsible for spatial variation in rural areas include unfavourable agricultural environments, and investments in infrastructure (e.g. paved roads, electricity). Further, the benefits of technological change in agriculture, and diversification outside agriculture, have not been shared equally by all regions. Spatial variation at the urban level is less well understood in Bangladesh, and there is a real need for more research on urban chronic and extreme poverty, especially in smaller cities and towns.

## Financial services for the poorest

Research undertaken by BRAC to inform their *Targeting the Ultra Poor programme* suggests that while extremely poor households *do* join microfinance programmes, on average they participate at a much lower rate than their share of the population, and the quality of their participation is often limited. While a desire to invest and promote existing livelihoods to higher levels drives moderately poor households,



protecting livelihoods from further decline, or using such participation to avail other resources such as Vulnerable Group Development (VGD) cards, are important considerations for extremely poor households. Borrowing patterns are also different, with extremely poor members tending to be less intensive borrowers (BRAC-RED, 2003). While there is limited evidence on the effects of microfinance on extremely poor members, it is apparent that those who are able to participate regularly do register significant improvements. The complexities of extremely poor households' engagement with microfinance needs further in-depth exploration for policy and programmes to enhance the role of microfinance in extreme poverty reduction.

## Social protection

Well-functioning safety nets are an important element of social protection strategies. Bangladesh has initiated a number of safety net programmes that have had some beneficial outcomes for the poorest. However, existing safety nets provide limited coverage. Further, the large number of urban poor and extreme poor are largely excluded from the current system of safety nets, despite the fact that in some respects urban poverty is more severe than rural poverty.

While targeting of some of safety net programmes, including Food-For-Work (FFW) and VGD, is reasonably good, it is the case that a large share of the budgeted resources appear not to reach the intended beneficiaries. For example, it has been observed that as much as 35 percent of the foodgrains allocated to the Vulnerable Group Feeding (VGF), 41 percent of the VGD, and an overwhelming 75 percent of allocations to the Food-For-Education (FFE) programme do not reach *any* household – eligible or otherwise. Reasons for the discrepancy include: the number of actual beneficiaries is considerably lower than that proposed by administrative records (especially for FFE and VGF); and the average amount received by each beneficiary is less than the amount they should be provided, according to the programme guideline (especially for VGD). Whatever the reason, leakage on such a massive scale suggests serious failure in discharging the responsibility on the part of the government, and a problem of accountability (World Bank, 2002, Chowdhury and Ali, 2006).

Regarding the effects of these programmes on their target beneficiaries, studies present a mixed picture. While some conclude that safety net programmes have had a positive role in alleviating poverty in Bangladesh, others observe that they only contribute to consumption and income smoothing, rather than structural changes (World Bank, 2006).

In order to make safety net programmes more effective, several initiatives can be undertaken:

- increasing coverage;
- ensuring cost-effective delivery of existing programmes (i.e. minimizing leakage);
- shifting focus onto human capital development;
- increasingly focus on the urban poor;
- monetizing benefits;
- minimizing the number of intermediaries and ensuring transparency in service delivery;
- increasing self-targeted programmes; and
- carrying out adequate monitoring and evaluation.

## Concluding remarks

Growth is important to help the poorest move out of poverty, but the quality of growth is as important as the quantity of growth. A pro-poorest growth strategy (i.e. broad-based growth that is not highly unequal and includes the poorest) must therefore be pursued. However, growth alone is not sufficient to help the poorest escape poverty. Public action by all concerned including government, NGOs and communities themselves are also required.

Accessibility and quality of health and education services must be upgraded, and innovative schemes to help the poorest manage vulnerability and seize opportunities designed and implemented. Employment opportunities for those able to labour need to be implemented, and matched with self-employment opportunities and social safety nets for those unable to labour – particularly during lean seasons. Social protection should foster the human development of the next generation – through opportunities to take up education and health/nutrition services – at the same time as protecting and promoting household livelihoods, if the intergenerational transmission of poverty is to be interrupted. Improvement of infrastructure is also necessary, in both urban and rural areas, and across all regions – while taking into account spatial differences at the most local level. These include all-weather roads, electricity, ports, information and communication technologies, and risk mitigation and management systems for ecologically vulnerable areas.

Government must take reform of the tax system seriously. This will, on one hand, strengthen the financial capacity of the government to undertake poverty reduction programmes, including social protection, basic services and infrastructure, in a big way, and on the other hand, enable the country's growing middle class and its increasingly prosperous businesses to contribute to poverty reduction efforts. Efforts should be taken to ensure access to financial and other assets for the poorest, crucial for the



The Chronic Poverty Research Centre (CPRC) is an international partnership of universities, research institutes and NGOs, with the central aim of creating knowledge that contributes to both the speed and quality of poverty reduction, and a focus on assisting those who are trapped in poverty, particularly in sub-Saharan Africa and South Asia.

#### Partners:

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graduation of chronically and extremely poor people to levels of income and wellbeing whereby they can take chances, grab opportunities and potentially escape poverty.

Finally, efforts must also be made to help the poorest achieve a minimum level of citizenship – the capacity to be able to demand their rights. Existence of strong and effective local government is a precondition. In its absence, the poor and the poorest tend to depend on informal substitutes – patrons, and in urban areas,

*mastans*<sup>4</sup> – which in turn helps keep them in long-term poverty. Strengthening local democracy and local government is therefore crucial for helping the poorest to enjoy better citizenship. Improved governance including improvement of law and order, establishing rule of law, and strengthening the public accountability of state, market and civil initiatives are also important elements in this respect.

This policy brief was written by Zulfiqar Ali<sup>5</sup>

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#### Endnotes

- 1 The estimates have been made using the upper poverty line (Cost of Basic Needs method).
- 2 The estimate has been made using the threshold of 1805 kilocalorie per person per day (Direct Calorie Intake method).
- 3 Although the overall growth rate in the 1990s is about 83 percent higher in Bangladesh than in India, the difference vanishes with respect to pro-poor economic growth. Also, while the rate of overall growth in China is only about 2.6 times higher than in Bangladesh, the rate of pro-poor growth is about 4.4 times higher.
- 4 Used to describe a gangster, criminal or muscle-man with links to local politically powerful people. Mastans earn their income through a package of criminal activities, which can include extortion, smuggling, arms keeping etc.
- 5 The author gratefully acknowledges the comments and suggestions of Quazi Shahabuddin, Binayak Sen and Andrew Shepherd in preparation of this policy brief, and editorial advice from Karen Moore.

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