

## Executive Summary

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A discourse on poverty cannot afford to be poor – in its focus or content. With that in mind, this report presents a detailed account of the fight against poverty in Bangladesh. Although poverty is as old as our civilized existence, discussion on its cause or consequence only dates to the beginning of the last century. Economists joined the foray even later, largely because of their reluctance to see poverty as a core economic problem. The tragedy of the Great Depression was the first wake up call for economists and policy-makers to take the issues of poverty and inequality seriously. We have come a long way since then and the ECOSOC Annual Ministerial Review of the national efforts to reduce poverty and hunger is yet another milestone in the dialogue on poverty issues.

Bangladesh takes due pride on being the world leader in poverty research and innovation. During the past decade, it not only managed to reduce poverty by more than 10 per cent, it also produced two Nobel Laureates, who made outstanding contributions to addressing the root causes of poverty. Prof. Mohammad Yunus and Prof. Amartya Sen<sup>1</sup> have changed the way we look at poverty. They have shown that poverty is not just the absence of wealth. It is more fundamentally the lack of entitlement or right to livelihood and dignity. Professor Yunus, in particular, has shown the world that it is possible to overcome poverty.

Poverty is not yet history, but it is certainly on the retreat here in Bangladesh. In line with the theme of the Annual Ministerial Review of the United Nations Economic and Social Council, “*Strengthening efforts to eradicate poverty and hunger, including through the global partnership for development*”, this report discusses three broad issues. First, it shows that Bangladesh has made substantial progress in reducing poverty – from 58.8 per cent in 1990 to 40 per cent in 2005 (Table A). The decline is significant and robust, regardless of the statistical methods employed. The trend in poverty-reduction reflects the result of the highest priority that the government attaches to poverty reduction. The Government of Bangladesh adopted its own Poverty Reduction Strategy (PRSP) in 2005, which incorporates the poverty reduction targets outlined in the MDGs.

Second, the report attempts to explain the factors that made this reduction possible both at microeconomic and aggregate levels. The factors discussed here – although not exhaustive in their elaborations - demonstrate that combating poverty requires a holistic, multi-pronged approach. The report highlights the critical role of increased agricultural productivity, access to education, migration and micro-finance in reducing poverty. It shows that various pro-poor and pro-development policies – such as the National Food Policy, Primary Education Development Programme and the Overseas Employment policy, all of which are

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<sup>1</sup> Prof. Sen is an Indian citizen, but had his early education in Dhaka. His family was from the eastern part of undivided Bengal (Source: Sen, Amartya: *The Argumentative Indian*, 2004)

closely linked to the PRSP - have been effective in targeting the poor and reducing their impoverishment.

And third, the report illustrates the role of development cooperation in the decline of poverty head counts in Bangladesh – both between the government and non-governmental organisations and between the government and its development partners. It shows the effectiveness of joint programmes such as the Vulnerable Group Development (VGD) programme, jointly implemented by the Government of Bangladesh, the Urban Poverty project of UNDP and UN-Habitat; or the World Food Programme; or the Chars Livelihood Programme, undertaken by DFID and its NGO partners. The report looks at the global partnership for development at national, sub-national and grassroots levels.

**Table A: Achieving MDG-1**

MDG-1	Targets	Bangladesh Targets	Indicators	Base year 1991 (%)	Target Year 2015 (%)	Current Status 2005 (%)
Eradicate extreme poverty and hunger	<b>Target 1:</b> Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	Reduce proportion of people living below poverty line <sup>2</sup> from 58.8% in 1991 to 29.4% in 2015	Proportion of people below poverty line	58.8	29.4	40.0
			Poverty-gap ratio	17.2		9.0
			Proportion of people in extreme poverty	28	14	19.5
				67	33	39.7
	<b>Target 2:</b> Halve, between 1990 and 2015, the proportion of people who suffer from hunger	Reduce proportion of people living in extreme poverty from 28% in 1991 to 14% in 2015	Prevalence of underweight children (under 5 years of age)			

## Sound Macroeconomic Performance

<sup>2</sup> The USD 1 per day (PPP) poverty-measure is not used in Bangladesh.

The steady annual economic growth of over 4 per cent during the past decade and relatively low inflation, have been the underlying macroeconomic factors in reducing poverty. According to a World Bank study, Bangladesh's GDP growth experienced the least volatility in the 151 economies it covered<sup>3</sup>. This impressive growth performance, along with a decline in the population growth, contributed to a doubling of annual per capita GDP growth, from 1.6 per cent in the 1980s to 3.3 per cent between 1990 and 2004 (Figure 1). Both farm and non-farm activities, as well as strong export performance by the RMG sector, triggered the growth. Taking into account the impressive strides in economic growth, human development and poverty alleviation, the Goldman Sachs recently included Bangladesh in a list of 11 countries that have the greatest economic potential to replicate the success stories of China and other Asian Miracle countries<sup>4</sup>.

## **Social Indicators**

Bangladesh has outperformed most low-income countries on a range of social indicators. It increased net primary enrolment from 74 per cent in 1991 to 87.27 per cent in 2001 and has already attained the MDG of eliminating gender disparity in primary and secondary enrolment. With the sharp decline in infant mortality from 94 to 51 per 1,000 live births between 1990 and 2004, and in child mortality from 151 to 74 per 1,000, Bangladesh is set to achieve the targeted two-thirds reduction in both infant and child mortality rates by 2015 (please see Appendix 3). Food security has improved markedly, even for the very poor. Bangladesh's ranking in the human development index (HDI) is much better than might have been predicted for a country at its income level.

## **Explaining the Success**

Behind these successes lies a steady productivity growth in the agricultural sector. Despite the fact that its share of GDP declined from 30.4 per cent in 1991 to 20.1 per cent in 2005 (Figure 3), agriculture still employs about 50 per cent of the population in Bangladesh (Figure 2). Moreover, nearly 75 per cent of Bangladesh's population still live in the rural areas. Though not discussed in the report, the deteriorating terms of trade for farmers – owing to high input prices and an imperfect market structure – help to explain the declining share of agriculture in GDP. Farmers often do not receive a fair price for their output as access to market is controlled by intermediaries. Future efforts in poverty reduction will need to take this into account.

Micro-credit has proved to be one of the most effective development tools in Bangladesh. The Grameen Bank model of credit delivery to the rural poor –

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<sup>3</sup> See World Bank, *Bangladesh Development Policy Review*, December 14, 2003. Report No. 26154-BD, pp. 7-8.

<sup>4</sup> "Why Goldman Sachs may be right about Bangladesh", by Andy Mukherjee, *International Herald Tribune*, Tuesday, 24 January 2006

especially to women - has proved that the poor can lift themselves out of poverty through their own efforts and industry provided they are given access to capital. By 2006, nearly 80 per cent of poor households have taken part in micro-credit programmes, and a majority of those have improved their economic condition. The micro-finance sector is set to push boundaries further with the development of micro-insurance schemes.

The role of NGOs in reducing poverty extends also to education, where they play a key role in providing non formal education. This offers a practical curriculum and a flexible class schedule, in response to the needs of the families and the communities. BRAC, the largest NGO in Bangladesh, has a vast network of schools. This complements the government's own provision of education and has been particularly effective in reaching the poorer sections of society, who may otherwise be excluded from education. There is growing evidence that education and skill development have significantly contributed to reducing poverty in Bangladesh.

Temporary labour migration - primarily to Saudi Arabia and other Middle Eastern countries - has also contributed significantly to increasing household income and reducing poverty, both directly and through consumption and investment multipliers. The remittances reached USD 5.48 billion in 2006, accounting for nearly one tenth of the country's GDP (Figure 14). Temporary labour migration and remittance will continue to play an important role in poverty reduction in the foreseeable future. However, any adverse shock – global, political or economic instability – may seriously undermine the gains in poverty reduction.

## **Key Challenges**

While agricultural production has increased manifold, it is showing signs of diminishing marginal return. Given the finite amount of land and a still growing population, land use and crop intensity is approaching a maximum. This severely limits the ability of many poor people to earn a livelihood from farming. New investments and innovations in agriculture to further boost productivity will remain key to maintaining food security and reducing poverty and hunger. While the PRSP recognises the importance of maintaining a robust agricultural sector, the maintenance of steady job growth in the urban sector to absorb the increasing flow of migrating rural poor will remain a challenge. Bangladesh will have to identify and promote new thrust sectors to sustain the progress that helped achieve MDG-1 targets.

The ready-made garments (RMG) industry - the country's foremost export sector - has experienced impressive success and growth in recent years. It employs nearly two million women, who migrated to cities and whose income not only empowers them, but also contributes significantly to the rural economy throughout the country. But the future of this important sector will rely heavily on

its ability to compete with other garment producing countries in Asia and Africa; and also on the outcome of the Doha Development Round in the areas of special and differential treatment.

If Bangladesh loses preferential market access for its RMG exports to Europe and North America, especially vis-à-vis other RMG exporting LDCs, it is likely to face a large number of job losses, with adverse consequences on poverty. By some estimates, almost 740,000 garment workers – mostly women – will lose their jobs if Bangladesh loses the preferences. When the possible job losses in other sectors dependent on the RMG industry is accounted for, the total number may be as high as 2.59 million<sup>5</sup>. This would also mean almost 1.15 million people would slip back into poverty, derailing efforts to reach the MDG-1 by 2015. The PRSP and other policies take this challenge into account.

It is important to keep in mind – though not elaborated in the report - is the fact that RMG is not a skill-intensive sector and it has little or no learning effect. Excessive reliance on RMG exports may consequently depress the demand for skills and by extension, the demand for education. There is the potential danger that over-dependence on the RMG sector may trap the economy in a “low-skill, low-value added equilibrium”, undermining future efforts to reduce poverty. Taking this into account, PRSP puts the right emphasis on skill development and export diversification.

Trade liberalisation is perhaps the most visible expression of globalisation. Bangladesh has taken bold steps to liberalise its trade since the early 1990s. Trade now accounts for nearly 37 per cent of its GDP, compared to about 19 per cent in 1992. During the same period, Bangladesh’s un-weighted average MFN tariff declined from 47.4 per cent in 1992-93 to 13.54 per cent in 2004-2005<sup>6</sup>. This is reflected in an almost four-fold increase in its imports, from USD 3.9 billion in 1992 to USD 13.8 billion in 2005. Concurrently, trade deficit as a percentage of GDP rose from 4.76 per cent to 6.46 per cent, showing that Bangladesh's exports have not kept pace with growth in imports. It will remain a daunting challenge for Bangladesh to pursue a pro-poor trade policy, especially to ensure that liberalisation leads to job-growth, both in traded and non-traded sectors.

Another formidable challenge in Bangladesh’s poverty reduction efforts – though not detailed in the report - is the adverse consequences of global warming. The Stern Report<sup>7</sup> warns that the very poor in the low-lying coastal areas of Bangladesh will be one of the worst victims of a rise in the sea-level. By some estimates, the sea level in the Bay of Bengal is rising by about 3mm a year and it is predicted that as much as one fifth of Bangladesh’s land mass will go under

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<sup>5</sup> Khondker, Bazlul Potential Human Development Implications of MFA Phase-Out: The Case of Bangladesh. Estimates from an Integrated Modeling Approach” UNDP Bangladesh, May 2005

<sup>6</sup> WTO Trade Policy Review: Bangladesh - 2006

<sup>7</sup> Stern, Nicholas: *The Economics of Climate Change: Stern Review*, Cambridge, 2007

water if the sea level rises by just one meter. This will cause not only massive displacement of about 13 to 30 million people, but will also reduce the capacity for rice production by as much as 30 per cent. If Bangladesh is to achieve MDG-1 by 2015 - and more importantly, if it is to sustain a low rate of poverty after 2015 - it will need to address the issues of climate change more vigorously. International cooperation will be critically important in minimising the adverse effects of global warming on Bangladesh.

## Summary Points

Chapter 1 shows that poverty reduction policies and strategies require a thorough understanding of the form, extent and depth of poverty and that begins with a head count of people living below the poverty line. In Bangladesh, the poverty line is determined using the Cost of Basic Needs (CBN) method. Households with per capita expenditure below the level at which all members of a household can be expected to meet their basic needs – in both food and non-food consumption – are considered poor. The CBN method yields a poverty line that includes provision for non-food needs. By the CBN estimates obtained from the Household Income and Expenditure (HIES) data<sup>8</sup>, the incidence of poverty in Bangladesh has declined from 58.8 per cent in 1991 to 40 per cent in 2006 (Table 1), with differences in urban and rural poverty rates.

MDG-1 recognises the critical linkages between poverty and hunger. Chapter 2 shows that hunger and under-nutrition can trap people in an endless cycle of poverty that passes on to their children – the so called “hunger-low productivity-extreme poverty trap.” Hunger often induces weak immunity, making people more vulnerable to disease. Disease, in turn, prevents poor people from participating in productive and income-generating activities, which further exacerbates their impoverishment. Reduction of hunger and ensuing food security, including nutritional well-being, are therefore viewed as *sine qua non* for faster growth and sustainable poverty reduction.

Furthermore, the mutually reinforcing relationship between poverty and hunger is often affected by a wide range of factors, such as strong seasonality in food production, food price instability, inequalities, especially gender-inequalities within households, natural and man-made disasters, poor sanitation facilities. Complementing the PRSP priority on food security, the National Food Policy – adopted in 2006 - focuses on three core objectives: adequate and stable supply of safe and nutritious food; increased purchasing power and access to food; and adequate nutrition for all individuals, especially women and children.

Food and/or cash based targeted programmes are increasingly used to reduce hunger and under-nutrition and support human development. The Food for Work (now Cash for Work) programme ensures access to food for the extreme poor and vulnerable by providing employment while building infrastructure for rural

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<sup>8</sup> For detailed information on the HIES data collection and methodologies, please see Appendix 2

development. Other programmes - such as the Vulnerable Group Development (VGD) – help to augment the income of poor households on a more sustainable basis by providing training as well as short term employment. Other programmes, such as the National Nutrition Programme, aim to increase the sustainable income of the poor by improving nutrition and thereby improving their productivity.

As a consequence of sustained productivity in agriculture, and interventions to reduce hunger and under-nutrition, Bangladesh has registered substantial progress in reducing the number of underweight children - one of the key MDG-1 indicators - between 1990 and 2005, with the percentage falling from 67 per cent to 39.7 per cent (Figure 6). To reach the MDG target, its prevalence must fall to 33 per cent by 2015, and Bangladesh is one of the few countries that is believed to be on track to do so.

Chapter 3 highlights the causal relationship between literacy and poverty reduction. It is widely accepted that literacy is both a foundation and a pre-condition for the eventual eradication of poverty, because it gives learners the tools for further learning and skill development and to improve their economic prospects. Bangladesh has made significant advances in ensuring education for all and in increasing the net enrolment rates in primary education from 74 per cent to 87.27 per cent in just about 15 years. It has also achieved gender parity in the primary school enrolment – one of the key Millennium Development Goals (Figure 7)<sup>9</sup>. The Government has made female education free up to the 12<sup>th</sup> grade to ensure gender parity in secondary and tertiary education

Despite these remarkable progresses, some difficulties still remain in ensuring education for all. There are, by some estimates, about 17.27 million children outside the education system. Poverty continues to prevent many children from fulfilling their rights to education. In reality, there are many direct costs that prevent children from the poorest and most vulnerable groups accessing 'free' education opportunities.

Non formal education (NFE) is playing an important role in empowering illiterate people and in fostering development. The government's NFE Policy Framework (2006) aims to provide life-long access to learning opportunities. The target population of various NFE projects includes out-of-school children, school dropouts, adolescents and young adults, as well as urban slum-dwelling working children and adolescents engaged in hazardous professions. Data show that more than 18 million previously illiterate people have benefited from the government's projects.

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<sup>9</sup> MDG -3: Promote gender equality and empower women. Target-4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015

BRAC – the largest NGO in Bangladesh – plays a leading role in providing non-formal education to the poor children. By 2005, 3,225,031 children had passed from BRAC schools, 89.1 per cent of whom successfully made to formal high schools. The 89.1 per cent transition rate of BRAC graduates is significantly higher than the transition rates of students who graduated from formal primary schools. As of February 2007, BRAC has 32,000 primary schools in all 64 districts with nearly 1 million students currently enrolled. Despite the tremendous success in reaching the poor and out of school children, resource mobilisation remains a challenge for the NFE sector in Bangladesh. There is a strong need to involve the private sector in mobilising domestic resources if the goal of education for all is to be achieved.

Chapter 4 underscores the significant role of migration and remittances on poverty reduction. There is growing evidence that international migration - through remittances, the transfer of social capital and diaspora linkages - can contribute positively to poverty alleviation as well as stimulating development in the countries of origin. By some estimates, the origin countries of temporary labour migration would enjoy a return of USD 160-200 billion if the EU, Canada, Japan and the USA allowed migrants to make up 4 per cent of their labour force<sup>10</sup>.

Temporary labour migration has a major impact on Bangladesh's society and economy, especially in terms of providing job opportunities to a growing young population. The number of Bangladeshi workers that have registered and left for work abroad reached a record high of 377,591 in 2006 (Figure 13). Remittances reached \$5.48 billion in 2006 (Figure 14), placing Bangladesh in the top twenty remittance recipient countries. Remittances were equivalent to about 10 per cent of GDP and are the country's single greatest source of foreign currency. A steady inflow of remittances has resolved foreign exchange constraints, improved the balance of payments and helped increase the levels of national saving. Although remittances are largely used to meet basic needs, a significant portion is also invested in land, education and health-care, which have significant poverty reduction impacts (Table 7).

PRSP recognises the emerging importance of migration and remittances as a dominant factor in household income and poverty alleviation. The Overseas Employment Policy - introduced in November 2006 - highlights the importance of increasing remittance flows through formal channels to maximise their impact on poverty alleviation. It also seeks to expand overseas employment opportunities for a fast-growing young population. The Government of Bangladesh believes that the source and recipient countries should work to promote temporary labour migration and to protect the interests of the migrant workers.

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<sup>10</sup> The World Summit on Sustainable Development, Johannesburg 2002

In Chapter 5, the crucial role of micro-credit in reducing poverty is discussed. The micro-finance industry in Bangladesh has demonstrated extraordinary growth over the last two decades. Nearly 700 MFIs provide micro-credit to about 12.65 million households and by 2005, the cumulative number of borrowers reached 26.4 million. Nearly 80 per cent of micro-finance beneficiaries are poor. It is also important to note that more than 90 per cent of funding for micro-finance programmes comes from domestic sources, with the MFIs themselves accounting for nearly 60 per cent of all funds (Appendix 4).

Nationalised commercial banks and specialised banks, along with specialised government organisations, semi-formal financial organisations also operate micro-credit programmes. The four largest micro-finance organisations<sup>11</sup>, however, serve over 80 per cent of all active borrowers. The Grameen Bank - the pioneer in micro-credit and the country's largest MFI - is owned by the poor themselves. Its borrowers own 93 per cent of its shares, with the government owning the remaining 7 per cent. It has grown over the years. Today, Grameen Bank is the country's largest rural financial institution. It has more than 7 million borrowers, 96 per cent of whom are women. With 2,381 branches, Grameen Bank provides credit and others services in 75,950 villages throughout Bangladesh.

Numerous studies have shown that micro-credit has significantly contributed to reducing poverty, with one concluding that it accounted for as much as 40 per cent of the entire reduction of moderate poverty in rural Bangladesh<sup>12</sup>. Micro-insurance is a new concept – but one that is gaining attention and popularity in Bangladesh. Effective micro-insurance and micro-health insurance schemes are potentially significant means of reducing the huge vulnerability of poor people to natural disasters. The challenge is to develop practical, appropriate and sustainable micro-insurance models.

Chapter 6 shows that effective partnership between government agencies, development partners and non-governmental organisations is extremely critical to achieving sustainable poverty reduction. The increased harmonisation and alignment of the strategies of the development partners with PRSP have contributed to improve coordination and aid effectiveness. The development partners are increasingly adopting and implementing joint programmes to reduce overlaps in various poverty alleviation programmes. Increased understanding by the government and its development partners suggest that the vulnerability of the extreme poor can be reduced with policies and strategies that focus on micro-finance, asset or cash transfer, and social safety nets. These poverty alleviation programmes seek to provide safety nets and social protections to the extreme poor. The Urban Partnerships for Poverty Reduction (UPPR) – a joint undertaking of the Government of Bangladesh, UNDP and UN-Habitat –

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<sup>11</sup> Grameen Bank, ASA, BRAC and PROSHIKA

<sup>12</sup> Khandker, Shahidur (2005): "Microfinance and Poverty: Evidence Using Panel Data from Bangladesh", *World Bank Economic Review* 2005; 19: 263-286

represents the emerging trends in development cooperation (Box 10). The Chars Livelihood Programme (CLP) and the Rural Employment Opportunities for Public Assets (REOPA) are similar joint projects targeted to help the extreme poor and the vulnerable.

Bangladesh has made steady and satisfactory progress towards achieving the Millennium Development Goal on income poverty. Realistic projections by the government and the development partners indicate that it will succeed in lifting nearly 12 million people out of poverty by 2015, reducing poverty by half as targeted in MDG-1. However, the success of these efforts will largely depend on identifying the target population, improving coordination to make interventions timely and cost effective and enhancing resource mobilisation. The private sector will have to keep pace with the population growth to create new jobs for a growing population if Bangladesh is to attain a sustainable reduction in poverty. In addition, greater priority needs to be given by government and development partners to reducing extreme poverty in line with the PRSP targets. The extreme poor are often hard to reach and easy to forget.