



## Eliminating extreme poverty in Bangladesh

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Owing to rapid sustained gross domestic product (GDP) growth of around 6.0% per year over the past 15 years, per capita gross national income (GNI) in Bangladesh soared from around US\$429 in 2000 to an estimated US\$ 1330 in 2015. Bangladesh has now climbed over to the World Bank (WB)-defined threshold for a low middle income group of countries. An important policy question is to what extent this income growth has been shared with the poor? Another major debate is should middle income Bangladesh tolerate any amount of extreme poverty? Both questions are important and deserve serious examination.

Let us start with the first question. The Bangladesh Bureau of Statistics (BBS) uses the Cost of Basic Needs (CBN) approach to estimating poverty. To distinguish between moderate poor and extreme poor, the BBS identifies an upper poverty line (UPL) and a lower poverty line (LPL). The UPL and LPL both have the same allowance for food expenditure but the UPL has a more generous allowance for non-food expenditure than the LPL.

The progress with poverty reduction over the past 20 years is shown in Figure 1. Along with GDP growth acceleration, Bangladesh has witnessed a rapid decline in the incidence of both moderate and extreme poverty. Moderate poverty fell from 48.9% of the population in 2000 to 31.5% in 2010. It is estimated to have declined further to 24.9%

in 2015. Similarly, moderate poverty rate declined from 34.3% in 2000 to 12.6% in 2015. These are impressive reductions and speak well about the underlying development strategy in Bangladesh whereby the higher GDP growth has also helped lower poverty.



Analysis shows that the factors that contributed to poverty reduction include the rapid growth of GDP, especially in manufacturing and services, which created the employment base for the labour force; increases in agricultural incomes and real wages based on higher farm productivity and prices; growth of rural non-farm enterprises; rapid inflow of foreign remittances; reduction in fertility; and reduction in dependency ratio. Higher rice prices played an important role in increasing farm incomes during 2005-10 and had a net positive impact on poverty reduction.

The ongoing rural transformation, supported by the growth of manufacturing and services sectors and outward migration, has been a particularly strong factor during the Sixth Five Year Plan period. Available evidence suggests that along with an expansion of non-farm employment opportunities in the rural economy, the real wages in agriculture have increased substantially during 2010-15. This increase has happened for both male and female workers and in all districts of Bangladesh, including the Monga-prone districts in Rangpur. The large inflow of remittances in rural areas has contributed not only to higher income directly to recipient families; it has supported the growth of rural off-farm employment and incomes, especially in services and construction. Importantly, rural families now derive more income

from non-farm sources than from agriculture.

Turning to the second question regarding the elimination of extreme poverty, it does present a bigger policy challenge. While extreme poverty has fallen rapidly, it still persists at a high level of almost 13% of the population. Should Bangladesh accept the fact that close to 20 million people live in extreme poverty while it enters a middle income stage? On both social and ethical grounds, this does not appear as an acceptable phenomenon. But neither can it be wished away.

The Seventh Five Year Plan that seeks to achieve 8.0 per cent GDP growth by its terminal year (2020) if achieved will certainly help reduce extreme poverty further (Figure 1). Nevertheless under the current economic and social policy environment the level of extreme poverty will remain at around 8.0-9.0% of the population even with these higher GDP growth rates.

Can Bangladesh eliminate extreme poverty in the next five years? In my view the answer unfortunately is no. Even with better policies than now, it will likely take much more than five years to eliminate extreme poverty. Can this be achieved in the next 10 years? The answer in my view is a qualified yes.

To secure a much more rapid pace of reduction in extreme poverty with a view to eliminating extreme poverty in the next 10 years or so, in addition to pursuing the strategy to accelerate GDP growth to 7.0-8.0% as in the Seventh Plan, the social and economic policies will have to change quite dramatically. First, fiscal policy has to be drastically reformed to secure an improvement in income distribution. The inability to improve income distribution has been the Achilles' heel of Bangladesh development policy so far. The reform of fiscal policy entails raising the share of personal income taxes by treating all income similarly for tax purposes; by introducing a well functioning property tax; by sharply increasing spending on health and education from the present 2.4% of GDP to at least 5.0% of GDP by 2020; and ensuring that much of the additional spending on human development is focused on the poor.

Second, trade and fiscal policies have to be corrected to reduce the bias against labour intensive manufacturing exports. This will allow a faster creation of higher income jobs.

Third, a comprehensive evidence-based small manufacturing enterprise development strategy needs to be formulated and implemented. A strong small scale manufacturing enterprise sector that is well-linked to the medium and large enterprises will create more jobs and provide a major bridge for transition to a modern manufacturing based economy.

Fourth, strong effort is needed to improve labour skills, especially for the poor, through a comprehensive skills development strategy.

Fifth, the social protection strategy needs to be thoroughly revamped by the adoption and speedy implementation of the National Social Security Strategy (NSSS). Additional allocation to the tune of at least 1.0% of GDP is needed, but more money alone without the reform of the present ineffective safety net system is not going to be meaningful. The problems of identifying the poor and vulnerable population, designing appropriate income transfer mechanism to this group, and ensuring efficient administration are serious challenges that need to be addressed through the implementation of the NSSS in order to maximize the poverty reduction impact of social protection spending.

Finally, the social inclusion policy must be strengthened and implemented more forcefully. The government has adopted many of the international conventions for the protection of minority and at-risk groups, but implementation is very weak.