Bangladesh Rural Income Diagnostic

Maria Eugenia Genoni

Md Mansur Ahmed

Madhur Gautam

Pablo Tillan

Objective of the analysis

- **What are the main opportunities and constraints to faster, sustained income growth for poor and vulnerable households in rural Bangladesh?**

- The analysis focuses on areas where progress can be made in the next five years, consistent with the country's long-term development path.

The RID takes four steps to identify and prioritize opportunities and constraints for rural income growth

1 **Assess context and heterogeneity:** How do households currently allocate time and assets across activities to maximize income and reduce variability? How is this different for poor households? How does this vary across the rural space?

2 **Analyze opportunities for income growth:** What are the opportunities for agricultural growth and rural non-farm growth? What opportunties could emerge from migration?

3 **Prioritize constraints to growth:** What are the most important constraints preventing poor households from taking advantage of growth opportunities?

4 **Identify feasible policy solutions:** What are feasible policy actions that would help poor households overcome the constraints and take advantage of the opportunities for income growth?

Source: Hill (2018).

Data sources

- The descriptive analysis relies on three household surveys:
  - Bangladesh Integrated Household Survey (BIHS)
  - Household Income and Expenditure Survey (HIES)
  - 62-village panel surveys

- Analysis are complemented with data from the Economic Census 2013, the Agriculture Censuses, the 2018 Agriculture and Rural Survey, and Labor Force Surveys.

- Statistics from the World Development Indicators (WDI), FAOSTAT, and other sources were used for benchmarking.

Understanding context and income heterogeneity

Bangladesh's gains against poverty in rural areas have been remarkable but uneven
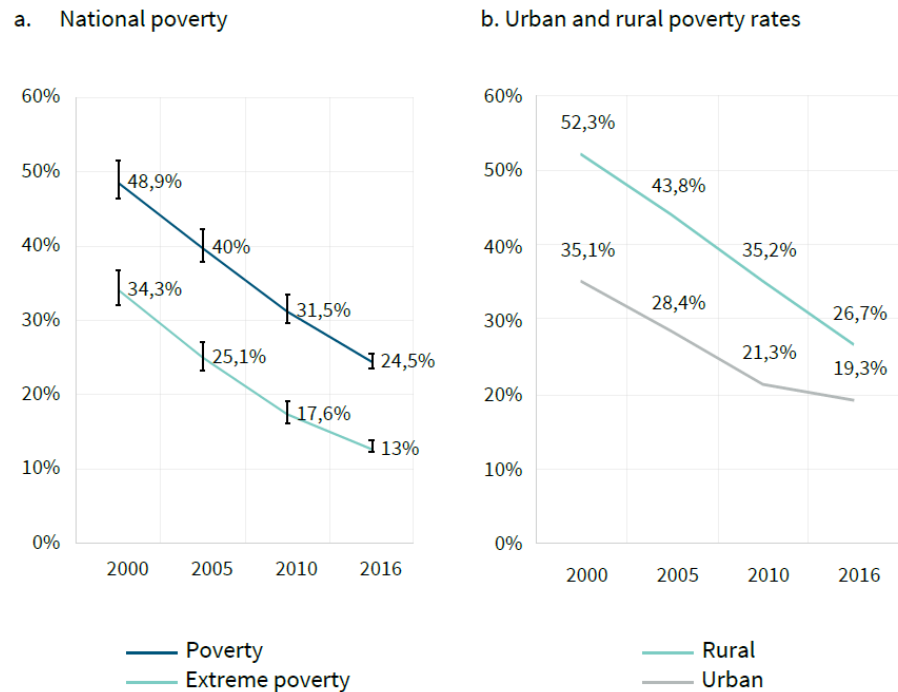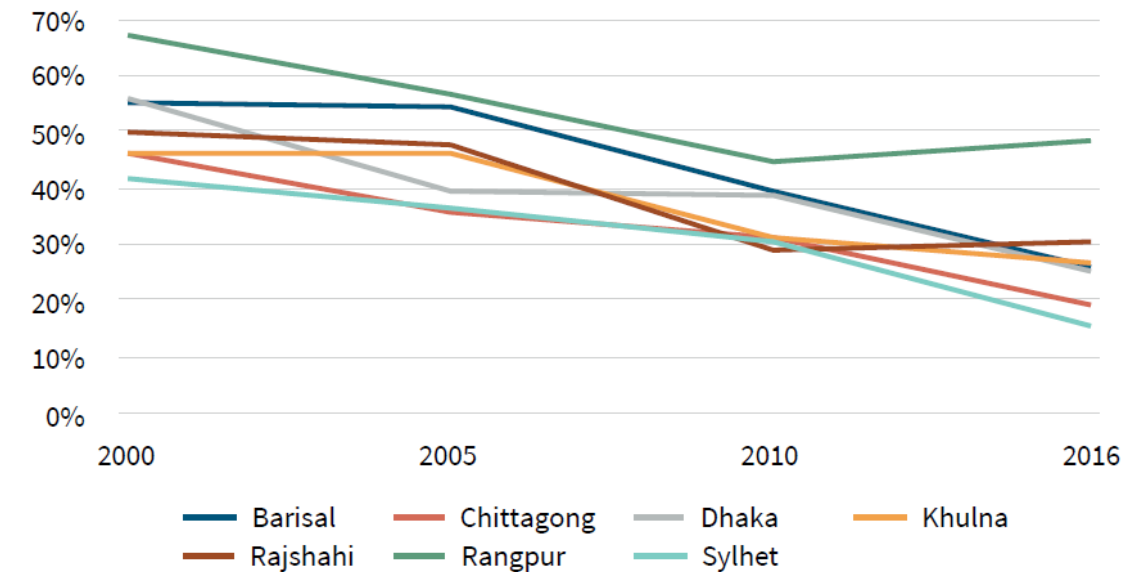

Figure 1.1. Poverty rates across time, 2000-2016

a. National poverty

b. Urban and rural poverty rates

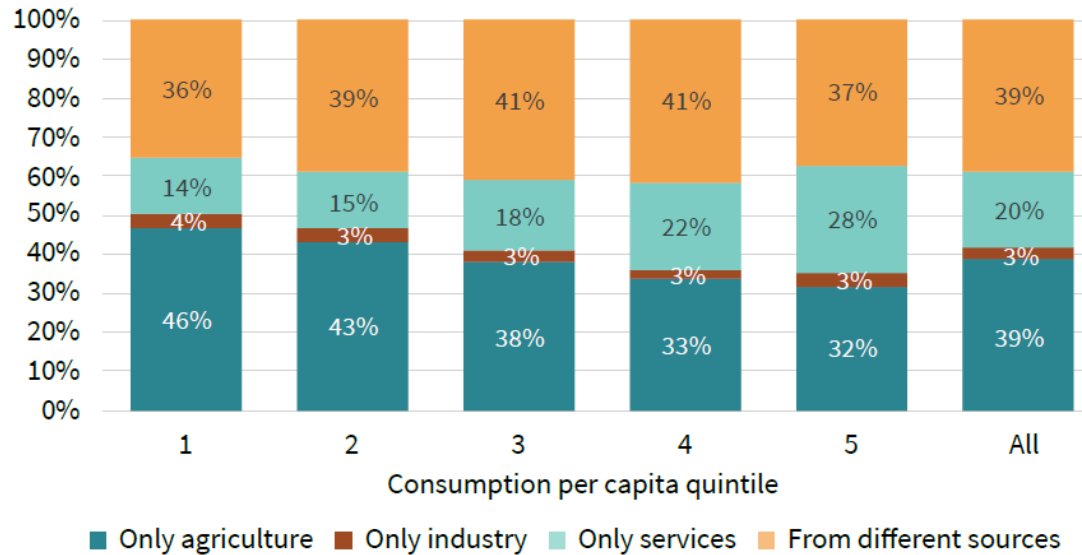Figure 1.2. Rural poverty rates by division, 2000-2016

Source: Authors' calculations using HIES 2000-2016.

Economic transformation has allowed many rural households to diversify income sources and increase income and consumption

Figure 1.11. Percentage of total labor income derived from agriculture, industry, and services
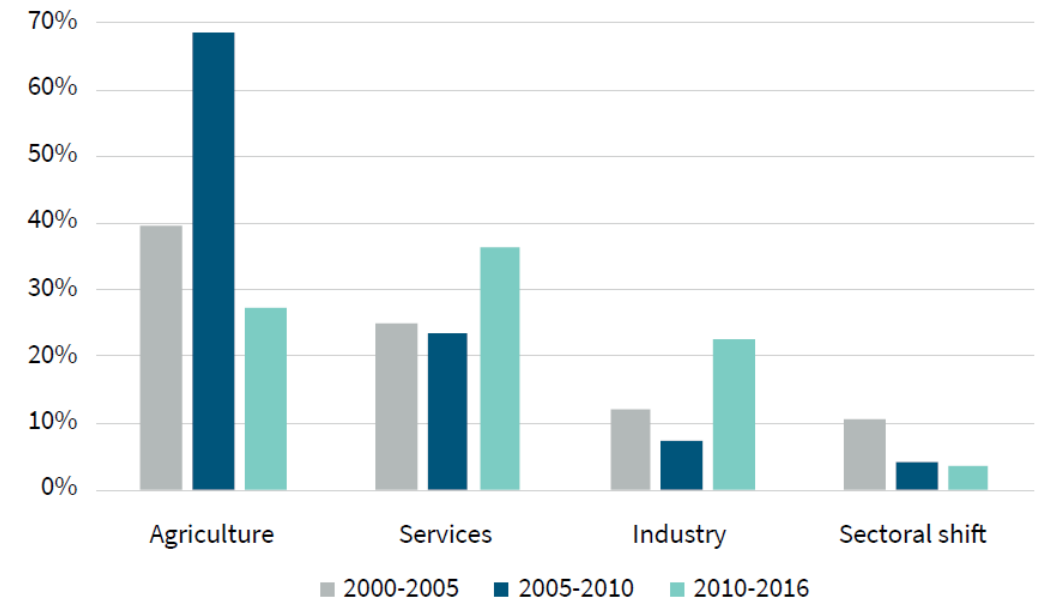
Rural areas, by quintiles, 2018

Source: Authors' calculations using BIHS 2018.
Note: The figures denote the average share of sectoral sources of income across consumption quintiles.

All sectors of Bangladesh's economy have contributed to poverty reduction in the past

Figure 1.7. Contribution of economic sectors to rural poverty reduction across time

Source: Authors' calculations using HIES 2000, 2005, 2010, and 2016.
Note: Results obtained from Ravallion and Huppi (1991) decompose changes in poverty over time into intra-sectoral effects, a component due to population shifts across sectors, and an interaction (not displayed). Sector of employment defined based on reported hours of work in each sector. Sectoral shift is relatively small as it is defined at the household level.

But gains remain fragile…

- **Substantial movement in and out of poverty that partly reflects low quality of jobs**
    - High self and daily-wage employment.
    - A large share of employment is based on informal and subsistence microenterprises.
    - Rising rural unemployment, particularly among youth and women.

- **High weather and climate-change risks**
    - Agricultural incomes are particularly vulnerable to extreme weather events.
    - This vulnerability is exacerbated by limited ability of households to cope with income shocks.

Figure 1.14. Household poverty transitions, 2000-2014

a. Percentage of households moving in and out of the poorest income quintile

b. Percentage of households moving in and out of poverty

Percentage

Poverty Status 2000
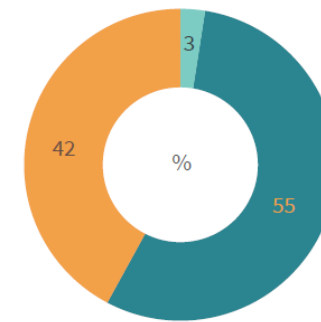
- Always in bottom 20%
- Always in top 80%
- At some point in bottom 20%
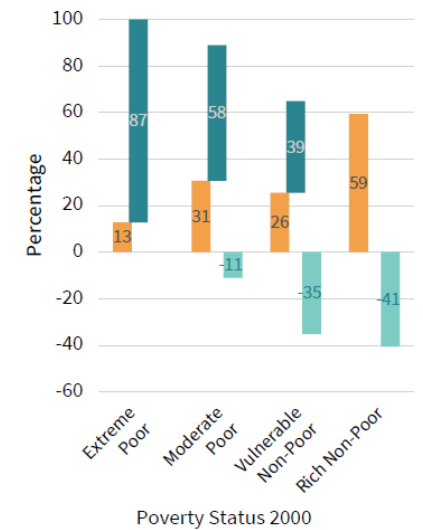
- Static
- Up
- Down

Source: Authors' calculations using 62-village panel.
Note: For details on methodology, see Ahmed and Gautam (2020). Poverty is defined using the income aggregate and the official poverty lines from BBS.

Opportunities for rural income growth
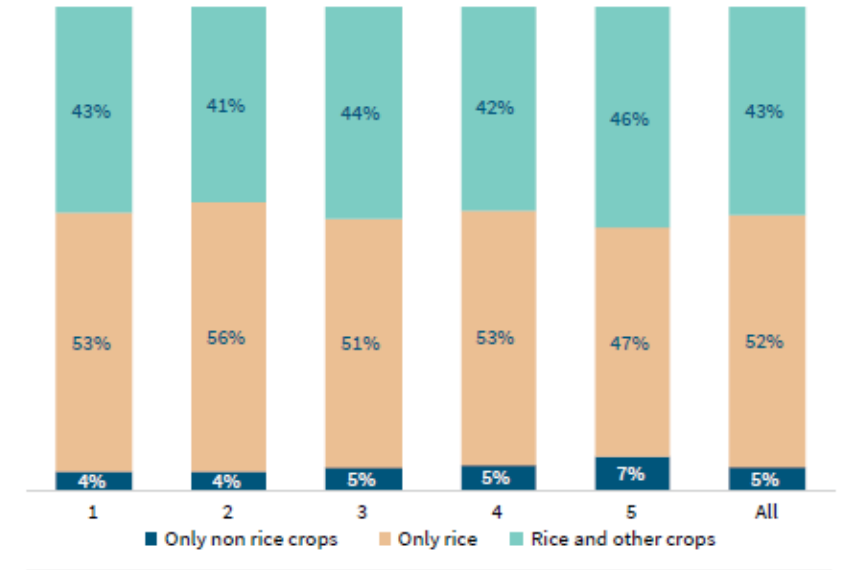
First, there is an opportunity to increase incomes by diversifying agricultural output

Figure 1.20. Percentage of farmers growing only rice, across consumption quintiles, 2018

Source: Authors' calculations using BIHS 2018.

- **Agricultural production is highly concentrated**
  - Paddy rice represents 71% of production areas while significant potential for agricultural diversification exists.
  - There has been diversification toward non-paddy crops in recent years, but progress remains slow.
  - While many crops offer farmers higher returns than rice, most farmers continue to grow rice.
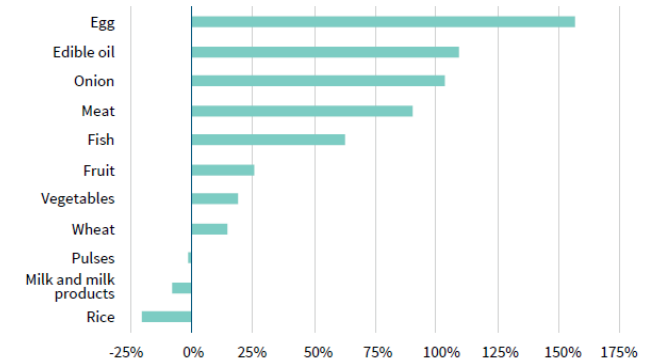
- **The expanding domestic market for high-value food** provides an opportunity to increase incomes by diversifying output into higher value-added crops, livestock, and fishing products.

Figure 2.1. Change in food intake between 2000 and 2016

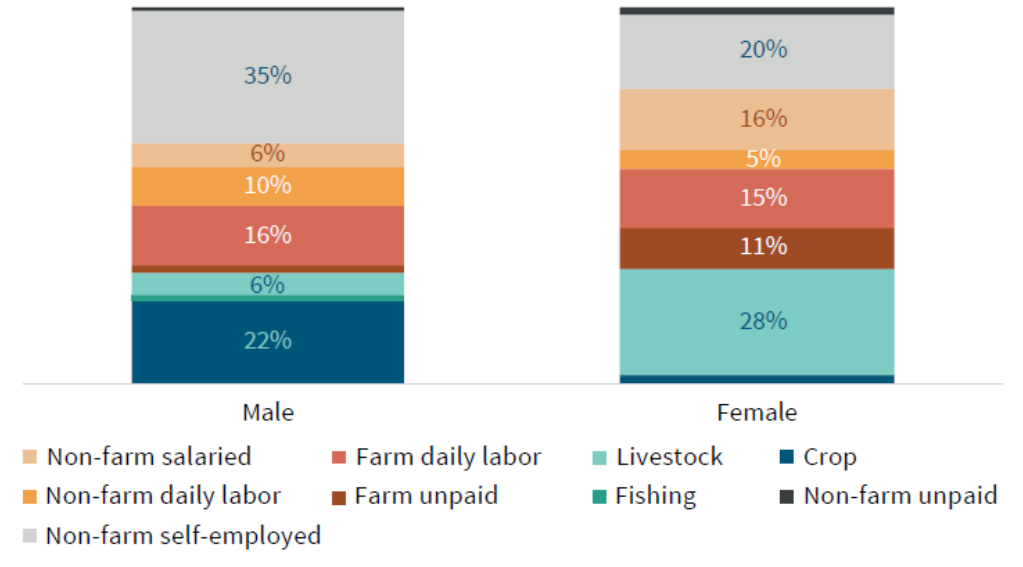Source: Authors' calculations using HIES 2000 and 2016.

Second, there is an opportunity to raise women's income

- **Women's earning potential remains largely untapped.**
  - Female labor force participation has been increasing but remains low.
  - Of women who work, about 60 percent are in agriculture, with a large proportion taking care of livestock or engaged in unpaid agricultural activities.

- **Women can ease pressures in the agricultural labor market.**
  - The rural labor market is tightening, as evidenced by the agricultural wage growing faster than the general wage rate.
  - The changing gender composition of the agricultural workforce implies the need to tackle constraints that still hinder some women from taking full advantage of these opportunities.

Figure 1.22. Types of employment for rural males and females, 2018

Percentage of workers by type of employment, by gender, 2018

Male

22%	Crop
6%	Livestock
16%	Farm daily labor
10%	Non-farm daily labor
6%	Non-farm salaried
35%	Non-farm self-employed

Female

| 28% |
| 11% |
| 15% |
| 5% |
| 16% |
| 20% |

Legend:
- Non-farm salaried
- Non-farm daily labor
- Non-farm self-employed
- Farm daily labor
- Farm unpaid
- Livestock
- Fishing
- Crop
- Non-farm unpaid

Source: Authors' calculations using BIHS 2018.

Third, supporting the growth of secondary cities and other growing urban areas can help boost rural incomes and reduce poverty.

- The importance of agricultural income varies more across space than between poor and richer households.
    - Incomes in Western divisions still depend more on agriculture.

- The spatial concentration of off-farm manufacturing activities around Dhaka and Chittagong influences rural income opportunities country-wide.

- The periphery of the country has lower market accessibility with hinders off-farm income opportunities.

- Sectors that serve the internal market, such as food processing, show a more even distribution of firms across the country offering potential for off-farm income growth.

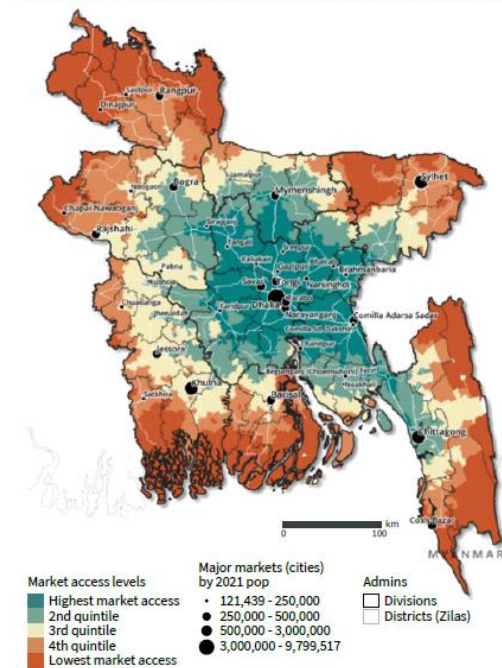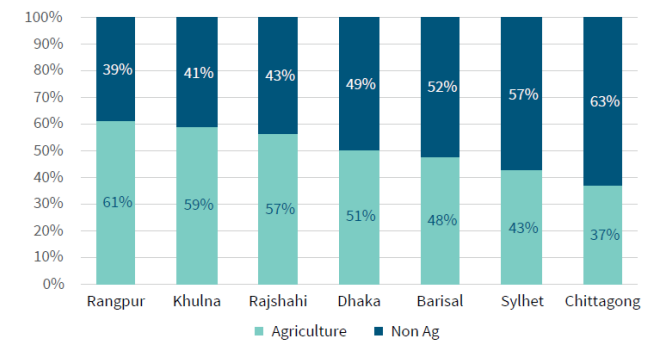Figure 1.44. Market accessibility across Bangladesh in 2021

Market access levels
- Highest market access
- 2nd quintile
- 3rd quintile
- 4th quintile
- Lowest market access

Major markets (cities) by 2021 pop
- 121,439 - 250,000
- 250,000 - 500,000
- 500,000 - 3,000,000
- 3,000,000 - 9,799,517

Admins
- Divisions
- Districts (Zilas)

Figure 1.25. Agricultural income as a share of total rural household labor income, averages by division, 2018

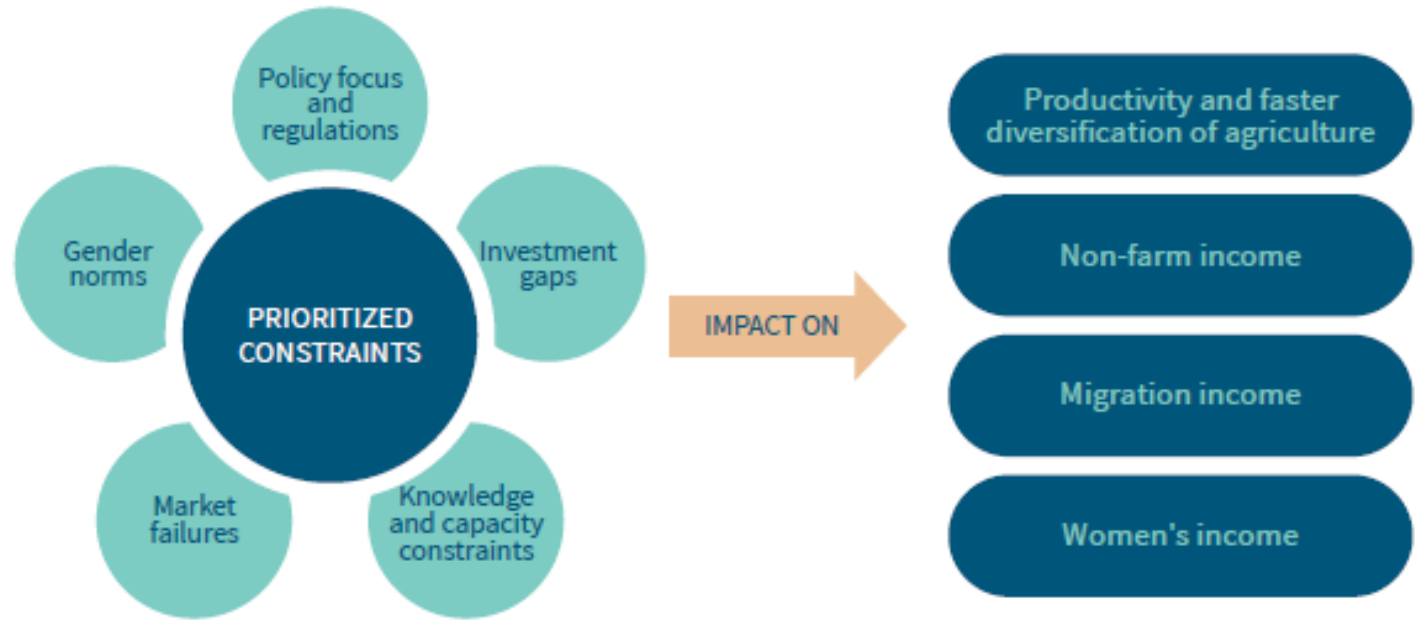|	Rangpur	Khulna	Rajshahi	Dhaka	Barisal	Sylhet	Chittagong
Non Ag	39%	41%	43%	49%	52%	57%	63%
Agriculture	61%	59%	57%	51%	48%	43%	37%

Source: Authors' calculations using BIHS 2018.

Constraints to rural income growth and policy levers to lift them

The RID identifies and prioritizes constraints based on two main criteria

1. Strong evidence that current performance in the area is falling short

2. Strong evidence that tackling the constraint can substantially improve rural income growth.

Collating and generating the evidence

Benchmarking

Do **benchmarking exercises** indicate that the country (or region) is underperforming on a dimension that **the broader literature or theory has shown to be important** for the type of income growth in question?

Literature review

Does **micro-econometric analysis** on the country indicate that removing this constraint would increase the type of income growth in question?

Do **macro models** indicate that addressing this constraint would help the sector and country grow faster?

Descriptive analysis

The gap is large: what evidence is there that the constraint is large for certain groups?

The gap is important for income growth: does the empirical analysis suggest removing the constraint would result in large income growth? If possible, run f.e. panel regression analysis. If not, cross-sectional with lots of controls

Expert consultations

Does **country expertise** suggest that this constraint is binding?

Expert consultations: stakeholder discussions. Also reflect other documents that report results of stakeholder discussions (e.g. government plans, sector strategies)

On its own this would not be enough to prioritize a constraint, but it can help to confirm or offer alternate explanations for patterns found in the literature and descriptive analysis.

5 prioritized constraints and policy areas for raising rural incomes of the poor in Bangladesh

1 Repurpose agricultural policies to support a more diversified and modernized agricultural production system.

2 Continue to improve water management, access and quality of electricity, and road accessibility.

3 Make the land markets work better.

4 Expand the quality of skills and extension services.

5 Address gender norms that constrain women's work opportunities.

Thank you

Bangladesh
Rural Income
Diagnostic

Enabling faster and more equal
income growth in rural Bangladesh