

A Decade of Progress in Reducing Poverty: An Introduction to the Special Issue¹

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The 2000-2010 decade is perhaps the most remarkable period in Bangladesh's history in terms of growth and poverty reduction. During this period, the real GDP growth in Bangladesh was nearly 6 percent per year on average and the poverty headcount rate fell by about 1.7 percentage points per year, from 49 percent in 2000 to 31.5 percent in 2010. During this decade, Bangladesh also attained the depth-of-poverty Millennium Development Goal (MDG) target of 8 percent at least five years ahead of schedule, and was set in the right path for achieving the first poverty MDG goal of halving the poverty headcount to 28.5 percent by 2015. The country experienced similar improvements in other socio-economic indicators, consistently achieving better health outcomes, improved access to services, better living conditions, and increased literacy. Not too long ago being referred to as the "basket case," the country now sets eyes on a new goal, that of becoming a middle income country by 2021.

Reflecting on past experiences to better understand the factors that lead to the significant improvement in the incidence of poverty is essential as the country moves forward. This special issue of the Bangladesh Development Studies aims to present a focused examination of the forces behind the improved patterns of

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wellbeing in Bangladesh. It contains six articles, examining topical issues on Bangladesh's poverty and economic development. The first article, authored by Lea Giménez, Dean Jolliffe and Iffath Sharif, presents an in depth analysis of changes in poverty incidence taking place during the 2000-2010 period. The analysis undertaken by these authors suggests stark differences in the underlying components of poverty decline between the first and the second halves of the decade. The authors also estimate Bangladesh's net elasticity of poverty reduction to growth in per-capita expenditure and use it to project the poverty headcount index into the future. This article shows that, unless the right combination of policies and coordinated multi-sectoral action are implemented to increase the current trend in GDP growth rate by more than 33 percent, attaining the Vision 2021 poverty target is unlikely.

Further evidence on the qualitative differences between the first and second halves of the decade is provided by the second article, authored by Gabriela Inchauste and Sergio Olivieri. In particular, the authors quantify the contributions to poverty reduction observed in Bangladesh between 2000 and 2010. They find that the most important contributor to the poverty decline during the first half of the decade was the growth in labor income, stemming from non-farm employment; in the second half of the decade, growth in income from farming was the largest factor. Their analysis suggests that labor income growth was mostly driven by the returns to individual and household endowments, pointing to productivity increases as well as an increase in the relative price of labor as the driving forces behind poverty reduction. Their study also underscores the importance of the enduring demographic transformation. In particular, it shows that one of the major drivers of poverty reduction over the 2000-2010 decade was the rapidly declining dependency ratio and the attendant growing work force.

More technical in nature, the third article, by Lea Giménez and Dean Jolliffe, uses nationally representative household survey data to reconcile the substantial divergence that currently exists between inflation, as measured by the CPI, and the increasing cost of minimum needs, as measured by changes in national poverty lines over time. First, the authors provide a brief recount of how inflation is measured in Bangladesh as well as of the construction or re-estimation of poverty lines over the 2000-2010 decade. Next, using a survey-based price index they examine both the temporal and spatial dimensions of price changes, as measured by the CPI and the poverty lines. The survey-based price index suggests the cost of living for the poor did increase more than what the CPI indicates, but less than the growth rate of the poverty lines. Taking this finding as evidence, the authors suggest that the national CPI over that period

underestimates the growing cost of meeting basic needs, and they advocate that the construction of the CPI basket and, in particular, the non-food component should be revised and periodically validated as new rounds of household survey data are made available as has been by the Government of Bangladesh in 2013.

One part of the story for why the growth in farm income played a role in the latter half of the decade is explored in the fourth article by Hanan Jacoby and Basab Dasgupta. During the 2007 – 2008 food price crisis, the world experienced a major global crisis due to significant price increases. Between 2006 and 2008, the average world price of rice increased by more than 200 percent. Conventional wisdom at that time was that the poor, who spend the largest portion of their budgets on food, would be the most adversely affected by the increase in prices. Yet, in theory, higher prices could also lead to improved terms of trade for sellers and higher rural wages for agricultural workers, both of which are likely to benefit the poor from rural areas. Jacoby and Dasgupta show that indeed rural wages in Bangladesh responded positively to higher crop prices over the last decade, greatly dampening the adverse effects of higher food prices over the medium term.

While progress during the decade was remarkable, there were several dimensions where improvements were weak or lagging. The fifth study by Atonu Rabbani is about one of these dimensions and focuses on nutrition. In this study, the author analyzes changes in the dietary diversity scores of the Bangladeshi population over time. The results in this paper show that although there was a clear increase in real per capital consumption expenditure in Bangladesh between 2005 and 2010, the dietary diversity of Bangladeshis showed no sign of improvement over this period. Moreover, the author finds that poor families typically report a lower dietary diversity and higher prevalence of dietary vulnerability than non-poor households. Yet, irrespective of their poverty status, the average Bangladeshi household limits its food consumption to an inadequate number of food items. This article advocates an important policy implication with regard to the monitoring of poverty. In particular, the author suggests that in addition to the focus on short-term expenditure-based measures of nutritional status, policy makers should pay special attention to the dietary patterns of the Bangladeshi population.

The substantial poverty reduction experienced in Bangladesh over the last two decades is often attributed to the parallel explosive expansion of microfinance lending that took place in the country over the last 20 years. How significant is the link between these two trends? What was the impact of microfinance on poor households? The last article, by Shahidur Khandker and

Hussain Samad, is dedicated to the study of the long-term effects of microcredit programs on household income, expenditure, and poverty. The authors show that continuous participation in microcredit programs helped participant households earn higher income and consume more, thereby lifting many of them out of poverty. Moreover, their study finds that the reduction of extreme poverty due to microcredit intervention accounts for approximately 10 percent of the total reduction of extreme poverty in rural Bangladesh over the 2000-2010 decade.

Assessing a Remarkable Decade of Progress

The poverty estimates based on the Household Income and Expenditure Survey (HIES) show that the proportion of the poor has declined substantially over the 2000-2010 period. Poverty headcount rates based on both upper and lower poverty lines show that the proportion of individuals that are poor and extreme poor is 31.5 percent and 17.6 percent respectively. The decline in extreme poverty is especially impressive in urban areas where it is down to 8 percent. In general, there are fewer people below the poverty line, and the severity of poverty has also declined significantly, due to a decreasing number of individuals that are extremely poor. The poverty projections based on the last three HIES surveys suggest that Bangladesh has already achieved the MDG goal of halving poverty headcount to 28.5 percent sometime in 2013. If the type of pro-poor growth observed over the last decade were to accelerate to more than 8 percent over the next 8 years, Bangladesh could, with the right blend of policies, achieve poverty headcount rates below 15 percent by 2021. But, maintaining growth at this high a level is a very ambitious path. Nonetheless, even if growth is not this strong, but does manage to continue as resiliently as it has done over the 2000-2010 decade, Bangladesh will achieve poverty headcount rates below 20 percent by 2021.

The poverty headcount rates for the first part of the decade also reveal that while poverty has decreased in both rural and urban areas, the reduction had been highly uneven, particularly favoring the Eastern part of the country. The same figures for the later part of the decade indicate that these East-West poverty differences had diminished significantly, suggesting that the second half provided the lagging regions with an opportunity to catch up in many dimensions. This is not surprising given that poverty reduction in the second part of the decade was qualitatively different from that of the first part of the decade in that it was more “pro-poor.” Moreover, during the second half of the decade the demographic changes associated with poverty reduction were larger in the West relative to the East, suggesting that the West, lagging behind relative to the East, may have

enjoyed higher returns to demographic changes over the decade. While these trends are encouraging, it is important to emphasize that the current poverty levels in rural areas continue to be relatively more pervasive and extreme, and that the gap in the speed of poverty reduction between urban and rural areas has in fact widened over the last five years. While the dramatic “East/West divide” that characterized Bangladesh over the 2000-2005 period has been mitigated significantly, there is an insidious and growing urban-rural gap that needs to be addressed.

Some important challenges remain though, particularly in the areas of human development. One of these challenges is linked to improved nutrition. Empirical evidence suggests that low dietary diversity, which is one of many drivers of poor nutrition, is a persistent problem in Bangladesh. Moreover, even in the face of outstanding achievements in reducing poverty and childhood underweight at the national level, achieving all of the hunger MDGs remains a challenging undertaking for Bangladesh. Moreover, if growth rates dampen, then so will the gains in poverty and hunger reduction. The collection of articles in this volume presents a largely optimistic portrayal of tremendous reduction in poverty in Bangladesh during the last decade. The achievements have been remarkable; maintaining and improving upon this path is a shared goal of the country, but one with many challenges.

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