

Poverty in Bangladesh in the 2010s-Progress, Drivers, and Vulnerabilities: An Introduction

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Strengths and Weaknesses

Bangladesh has come a long way since it became independent in 1971. The most dramatic expression of its progress is, perhaps, revealed in impressive poverty reduction recorded over the last nearly 50 years of Independence. In 1973/74, about 71.3 per cent of rural population lived in absolute poverty (as defined by the Cost-of-Basic-Needs approach); the matched figure has gone down to just 24.3 per cent in 2016.⁴ Bangladesh's development experience during this long period can be summarised as the time of the ascent of the poor and the poorest measured by both income and non-income indicators. From the employment point of view, it was an ascent underpinned primarily by the rise of the relatively unskilled labour through technology-intensive agricultural growth, rural non-farm sector development, export led industrialisation, and international migration of workers; the last two having important effects on the rapid pace of urbanisation since 2000.⁵

Bangladesh's long-term progress is also vindicated by the recent data. In 2016, about 1 in 4 Bangladeshi were poor. The country has halved poverty rates in a decade and a half, lifting more than 25 million people out of poverty. Between 2010 and 2016, about 8 million Bangladeshi were lifted out of poverty. Bangladesh is not only a one of the top performers in poverty reduction in the South Asia region, it is equally a top performer in improving non-monetary dimensions of welfare. This special issue of the Bangladesh Development Studies on poverty includes a series of papers that explore various dimensions of poverty in Bangladesh in the 2010s highlighting progress in poverty reduction as

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⁴The estimate for 1973/74 is taken from Hossain and Sen (1992). For the 2016 estimate, see World Bank (2019).

⁵This job-creating view as a propeller of poverty reduction has been captured in World Bank (2013) and Hossain *et al.* (2016).

well as pre-existing vulnerabilities.⁶ Both the strengths and weaknesses of the poverty reduction process have been highlighted by the nine papers included in this volume.

Main Findings of the Papers

The first paper included in this volume is authored by Ruth Hill and Maria Genoni and examines the trends, profile, and drivers of poverty reduction in Bangladesh. Several of their findings are noteworthy. The first key finding shows a diminished capacity of growth to reduce poverty. It shows that Bangladesh's sustained record in poverty reduction is linked with high and stable economic growth for more than a decade. Between 2000 and 2016, average GDP growth was 6 per cent per year, and average GDP per capita growth was 4.4 per cent per year. However, recent growth has delivered less poverty reduction than in the past. Even though average annual economic growth increased from 6.1 per cent between 2005 and 2010 to 6.5 per cent between 2010 and 2016, the pace of poverty reduction slowed. After falling 1.7 percentage points annually from 2005 to 2010, the national poverty rate dropped 1.2 percentage points annually from 2010 to 2016. The amount of poverty reduction each percentage point of growth per capita delivers (the elasticity of poverty reduction to growth) thus fell from 0.88 to 0.73. Measures of the depth and severity of poverty tell the same story. While both measures fell from 2010 to 2016, the rate of progress has been slower than in previous periods. The authors stress that the causes of this visible slowdown in poverty reduction rate need to be explored further.

The second key finding pertains to the visible slowdown of urban poverty reduction rate. This especially concerns the trends in urban extreme poverty, which is surprising given the rising urban real wages both in formal and informal sectors and rapid urbanisation in the 2010s. This is partly explained by the growing dichotomies between Dhaka and other cities. For instance, while poverty declined in Bangladesh's largest city, Dhaka, it dramatically increased in the second largest city, Chittagong, where the poverty rate rose from 6.6 to 16.9 per cent. Poverty fell in other urban centers, but more slowly than in rural areas.

The third key finding relates to stark differences in welfare trends across divisions. Poverty has risen in Rangpur division, the historically poorer

⁶All the papers in this special issue of the *Bangladesh Development Studies* were originally prepared for the World Bank Poverty Assessment (World Bank 2019). They have undergone subsequent revisions before inclusion in this volume.

Northwest of the country; stagnated in Rajshahi and Khulna in the West; fallen moderately in Chittagong; and declined rapidly in Barisal, Dhaka, and Sylhet. The stronger progress of poverty reduction in the Eastern regions widened a gap between Eastern and Western Bangladesh that had narrowed between 2005 and 2010 (Jolliffe *et al.* 2014).

Understanding of the causes behind the re-surfacing of the East-West divide is taken up in the second paper of this volume by Ruth Hill and Jose Joaquin Endara Cevallos. This paper uses decomposition analysis to examine the changing nature of poverty reduction from 2005 to 2010 and 2010 to 2016. Why was the nature of poverty reduction so different in these two periods? Four insights emerge from the analysis: (1) reductions in fertility and family size—factors that have been important for poverty reduction since 1990—have been slower in the Western divisions compared to the Eastern divisions; (2) gains in educational attainment are key to improving household fortunes, and can help explain the divergent trajectories of the East and West (the latter having slower progress in educational attainment); (3) while structural change is occurring, it is not uniform everywhere. Structural change lags in the West, where the income (consumption expenditure) level remains closely correlated with land ownership as in the past. This is concerning, given declining land holdings in the West; and (4) special conditions such as rising food prices that were present in 2010 increased relative gains to agriculture, benefiting the more agricultural West of the country and causing a temporary convergence in wellbeing. Thus, the higher share of households engaged in agriculture in the West partly explains the re-emergence of the East-West welfare divide.

The third paper by Ruth Hill and Jose Joaquin Endara Cevallos continues to explore this story of spatial divergence in poverty reduction through the prism of sectoral patterns of growth and international migration over the period 2000–2016. The paper finds that reductions in poverty were largest in places where agricultural growth was highest (the relationship between agricultural growth and poverty reduction holds when instrumenting agricultural growth with rainfall data) and where industrial growth was relatively high. Poverty reduction was also greater in districts which were sending larger numbers of international migrants.

The fourth paper by Yunus directly tackles the theme of poverty convergence. The author shows that the districts with higher initial poverty have experienced a faster subsequent reduction in poverty indicators during the period between 2000 and 2016. This is valid for all three FGT class of measures and is

robust to estimation methods, indicating a clear sign of poverty convergence. Under AB-GMM estimation, the speed of convergence for poverty headcount rate was found at 3.1 per cent (higher than the corresponding rate for income convergence). The author further calculates the magnitudes of the four contributing effects – “growth-accounted poverty convergence” effect, convergence effect of per capita income, direct poverty effect, and poverty elasticity to growth effect – to gauge the direction and extent of poverty convergence across districts. The speed of poverty convergence is magnified by a convergence effect of per capita income as well as growth-accounted poverty convergence effect, while it is partly cancelled by poverty elasticity effect. The paper also identifies the key factors that influence poverty convergence: higher incidence of human capital (literacy rate) and internal migration intensify convergence rates. These factors are unevenly spread across eastern and western regions. This gives clue to explaining the puzzle of persistence of East-West divide in poverty amidst the aggregate tendency of poverty convergence.

With rapid urbanisation and concomitant rise in urban poverty, a better understanding of urban poverty and urban income dynamics becomes a priority. One in five poor households now lives in urban Bangladesh and many more urban households are aspiring to be middle class yet vulnerable to slippages into poverty. The paper by Hossain Zillur Rahman and Ruth Hill deals with the issues of urban poverty. The authors show that although the term “urban” is often taken as synonymous of higher affluence, economic power, and improved well-being, it masks large variation in poverty both across cities and towns, and within cities. The absolute number of urban extreme poor has increased from 3 million in 2010 to 3.7 million in 2016. This is partly attributable to slower overall poverty reduction rate in larger cities. A further distinction between slum and non-slum areas in Dhaka City Corporation areas allows to draw additional gradations in spatial urban poverty. The results show that poverty rates in slum neighbourhoods are two and a half times higher than in Dhaka City Corporation on average and are at the same level as national poverty rates. Besides, non-income deprivations continue to be stubbornly high in urban areas notwithstanding their greater aggregate opulence, indicating the inadequate state of urban social services. The authors estimate that at current rates of urbanisation and poverty reduction, more than half of poor households will live in urban areas by 2030 and call for greater attention to studying spatial inequality within the large cities such as Dhaka and Chittagong.

The slowdown of the pace of urban poverty reduction during 2010-16 has been accompanied by a fall in urban female labour force participation (FLFP) rates. Understanding factors that constrain FLFP in urban areas is important for studying female well-being; in addition, female labour market participation has also positive effects on women's economic empowerment. However, it is also increasingly important to sustain urban income growth and poverty reduction, as Bangladesh continues to urbanise. The paper by Aphichoke Kotikula, Ruth Hill, and Wameq Azfar Raza explores factors that constrain women in slums and low-income neighbourhoods in Dhaka from engaging in the labour market and supplying their labour to wage or self-employment. It uses unique individual level data on labour market participation, time-use, norms, and skills, both cognitive and non-cognitive. The data reconfirm well-known patterns about female labour force participation: that it is higher among low-income neighbourhoods and women with low education, and it is higher among younger unmarried women. The paper also highlights the correlation between soft-skills and type of work. In addition, the paper quantifies the important correlation between safety in public spaces and FLFP. Women who do not feel that the environment outside of their house is safe are ten percentage points less likely to participate in the labour market. Overall, a quarter of women only leave their community once a month, and one in ten never leaves her community at all. This means that there are many women in Dhaka that live life as if they were in a remote village, even though they live in one of the biggest cities in the world.

Educational human capital plays an important role in accelerating economic growth and increasing the pace of poverty reduction. The paper by Maria Eugenia Genoni, Saurav Dev Bhatta, and Uttam Sharma focuses on this issue. The paper shows that educational gains have been equitable in Bangladesh during 2000-2016, reducing disparities by gender, wealth, and geography. Yet, progress is still needed at higher education levels, and there are still persistent gaps between the poor and rich and across districts. Gains are partly the result of the Government of Bangladesh (GoB) efforts to improve education outcomes, but also reflect increased private spending by households, suggesting the importance of private financing of educational development as the income level increases. Public stipend programmes help with the progressivity of the system at the primary level. However, at the secondary level, there is still significant room to improve the progressivity of these benefits. Addressing norms and expectations around the benefits of schooling can also be an important avenue to increase school attendance. About four in ten secondary school-age children out

of school report lack of interest or being too old to go back as their main reasons for not attending school; three in ten females cite family chores and marriage as reasons for not attending. One of the main findings of the paper is that GoB education spending is still low compared to other countries in the region and presents large variation across the territory, which is not correlated with education outcomes and internal efficiency indicators. Only when public spending translates into lower student-to-teacher ratios do outcomes seem to improve, but those ratios remain inadequate compared to other countries and unevenly distributed across districts. Focusing on higher quality spending rather than increasing overall budgets will be a priority for further progress.

Transition of labour from agricultural to non-agricultural (i.e., both industry and services) sectors has been an important vehicle of poverty reduction. The paper by Binayak Sen describes the recent evolution of employment and wages in rural Bangladesh. The analysis highlights the increasing trend into non-farm employment in the rural sector and some of the factors linked to the choice of non-farm jobs. Relying on both HIES and Labour Force Surveys, the paper concludes that the role of non-farm jobs has become visibly more important over time. Between 2010 and 2016, the share of agricultural employment has declined rapidly, with most increases happening in the manufacturing and construction sectors. Both HIES and LFS data support this conclusion of much more pronounced non-farm orientation of the rural labour force in the 2010s, compared to previous decades. In addition, analysis of the occupational choice shows the importance of human capital, urban proximity, and shocks as correlates of non-farm occupations. The above process of non-farm orientation did not bypass the female labour force, with fast spread of education and connectivity supporting this trend. Moreover, the transition of the labour force from the farm to the non-farm sector has had implications for the tightening of the agricultural wage labour market. Real farm wages continued to rise in the decade of 2010s, reinforcing the trends of farm mechanisation and the sustained drop in rural extreme poverty. Yet, average non-agricultural wages increased more consistently with findings that non-agricultural sectors drove the largest share of the poverty reduction in rural areas. Finally, the paper shows that the increase in non-farm employment was much faster in Eastern than Western divisions of the country, which can partly explain the re-emergence of the East-West divide in terms of welfare after 2010.

The last paper of this volume is by Faizuddin Ahmed, Maria Eugenia Genoni, Dipankar Roy, and Abdul Latif and deals with the methodological issues underlying the construction of consumption aggregates, poverty lines, and the poverty estimates (see also, BBS 2019). It describes the official methodology to estimate poverty based on household per capita consumption in Bangladesh using the *Household Income and Expenditure Survey 2016/17*. The analysis discusses changes in the survey that may affect the comparability of poverty estimates across time and a series of robustness checks to the estimation of poverty. It also includes a short description on how the official income aggregate is estimated.

Looking Ahead of a Pandemic Crisis

The papers considered together have highlighted the salient points of the poverty reduction process in the 2010s. The narrative centred around the 2016/17 HIES captures the finish line of the MDG process and the starting line of the SDG process. In a sense, all the papers indicate both the strengths and weaknesses—long-term success of the Bangladesh’s economy as well as indicate some pre-existing vulnerabilities accumulated over the recent decade—that were witnessed in the poverty reduction process. Even before the COVID-19 crisis, potential spoilers demanded attention. First, between 2010 and 2016, robust economic growth continued driving poverty reduction but not as effectively as before. In other words, the elasticity of poverty reduction to growth has decreased during the period. Second, urban poverty reduction slowdown significantly since 2010; urban extreme poverty has visibly stagnated. Third, Western divisions did not see the same gains as the East over the same period. Fourth, there is a large district level variation with poverty as low as 2 per cent in Narayanganj (an area of high industrial concentration) and as high as 75 per cent in Kurigram (as area of rural remoteness). These features highlight that the job of ending extreme poverty is not complete and centers on reducing the vulnerability of millions of households and reducing spatial disparities.

The recent COVID-19 crisis highlights these challenges and reinforce the message of the Poverty Assessment that what has worked in the past may not in the future. The ongoing COVID-19 pandemic is creating an unprecedented crisis in Bangladesh and poverty is likely to increase substantially in the short-term. Some of these increases will be “transient poverty,” some will be “new poverty”: the relative share between the two components remains to be explored. The decline in demand of manufactured goods, particularly from the export-oriented

readymade garments sector, is expected to constraint further job creation in the context of post-crisis uncertainties. In addition, slower consumer demand and social distancing measures are expected to reduce incomes of households engaged in informal services, and labour-intensive sectors like construction. Reductions in international remittances is also an important source of income that has been affected. In addition, the domestic outbreak and the consequent burden of healthcare and related disruptions will exacerbate the negative impacts in access to services and poverty. High density slum and urban areas as well as camps in Cox's Bazar are likely to be more vulnerable. Inequality is likely to worsen because of the pandemic shock.

This volume highlights that if the country is to succeed in its goal to eradicate extreme poverty by the end of the 2020s it will need to continue pursuing the traditional sources of poverty reduction, such as lowering fertility, increasing educational attainment, and growth in agriculture and manufacturing. However, new solutions will also be needed as Bangladesh's continues urbanising and transforming and responding to the new challenges due to COVID-19.

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