

**Poverty Profile**  
**People's Republic of Bangladesh**

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**Executive Summary**

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**Japan Bank for International Cooperation**



## **Chapter 1      Poverty in Bangladesh**

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This chapter gives an overview on poverty and inequality, and identifies the causes of poverty in Bangladesh based on available statistical data and existing analyses.

### **1-1      Bangladesh in South Asian Countries**

The population density of Bangladesh is 1,079 per square kilometers, which is the highest in the South Asian countries. The rate of industrial goods in the total exports is as high as that of Pakistan. In terms of health indicators, mortality rates of infant and children under-five are the second lowest following Sri Lanka, which has devoted her efforts to social development for a long time. The numbers of doctors and rates of births attended by skilled health staff are the second lowest in the region. Regarding gender indicators, girls' primary enrolment rate is 86 per cent, which is higher than that of boys. Women's employment rate of 67 per cent is higher than those of neighboring countries. On the contrary, adult women literacy rate is 31 per cent, which is lower than those of neighboring countries.

### **1-2      Macro Economic Trends**

"Unlocking the Potential: National Strategy for Accelerated Poverty Reduction" (hereinafter PRSP) recognizes that the economic growth is essential for sustained poverty reduction. In the 1990s, Bangladesh made a strong progress in poverty reduction based on the rapid economic growth, trade liberalization, improved ability of managing risks associated with vulnerability to natural disasters and investment in agriculture and infrastructure. The government has devoted its efforts in human development, which resulted in improvement in human development index. The growth rate of population is managed to be lower than that of the economic growth.

### **1-3      Measurements of Poverty Lines**

The Cost of Basic Needs Method (CBN) is adopted for constructing poverty lines in Bangladesh. CBN defines values of consumption needed to satisfy minimum subsistence needs (food as well as non-food consumption). Taking into account of the regional diversity in consumer prices, food poverty lines, lower and upper poverty lines are estimated for 16 strata reflecting different goods and services prices respectively. Those who spend less than estimated upper and lower

poverty lines are regarded as “poor” and “extremely poor”. The poverty rates (Head Count Ratio) estimated by CBN have declined from 1995/96 to 2005, except for the increase in poverty rates of urban areas from 1995/96 to 2000, which decreased again in 2005. During the period from 2000 to 2005, the poverty rates have improved due to the high economic growth. The incidence of poverty from the viewpoint of calorie intake per capita and per day estimated by DCI (Direct Calorie Intake) method has shown the same trend as those estimated by CBN.

#### **1-4 Trends of Poverty Incidence and Inequality**

The Head Count Rate (HCR) of incidence of poverty is estimated using both upper and lower poverty lines in Bangladesh. The estimated HCR of incidence of poverty using upper poverty line declined from 58.8 per cent in 1991/92 to 40.0 per cent in 2005 at national level and those using lower poverty line declined from 42.7 per cent in 1991/92 to 25.5 per cent in 2005 at national level. Both estimated HCR declined in urban and rural areas respectively, except for those in urban areas during the period from 1995/96 to 2000.

While the poverty rates have decreased rapidly due to the high economic growth, inequalities in the growth are observed as well. According to “Preliminary Report on Household Income and Expenditure Survey 2005” (HIES 2005), the inequality widened rapidly in the 1990s and the Gini coefficients have deteriorated from 0.388 in 1991/92 to 0.451 in 2000 for national level; from 0.364 to 0.393 for rural areas; and from 0.398 to 0.497 for urban areas. In terms of calorie intake, the incidence of poverty has improved in rural areas, but has worsened in urban areas. The number of population, who fall below a threshold calorie intake (2,122 kilocalories per person on a dairy basis), decreased by 4 per cent from 58.35 million in 1983/84 to 56 million in 2005. The number has decreased by 40 per cent from 30.22 million in 1983/84 to 18.7 million in 2005 if the dairy calorie intake per person of 1,805 kilocalories is applied.

Followings are reasons of the widened inequalities. (1) While rural areas achieved growth based on new income sources such as non-farm self-employment income, salaried wages and remittances from abroad in the 1990s, the extremely poor could not be benefited from those new income sources. Therefore, inequalities have increased in rural areas throughout the 1990s. (2) In urban areas, the extremely poor are unable to fully access to new income sources such as non-farm self-employment income, salaried wage, and remittances from abroad and rental value of housing. Further, nearly all antipoverty programs including human capital development

programs and essential health service packages have been targeting rural areas only.

### **1-5 Regional Disparities in Poverty**

About 80 per cent of the total population lives in rural areas in Bangladesh and the incidence of poverty is overwhelmingly seen in rural areas. After the 1990s, the regional disparities became apparent between the areas, which benefited from the rapid high economic growth and those did not. The incidence of poverty is the highest in the Western areas including Rajshahi Division, following Khulna Division. Compared with Barisal and Rajshahi Divisions, the poverty reduction rates are higher in Dhaka, Chittagong and Sylhet Divisions. The rate of poverty has slightly increased in Khulna Division.

### **1-6 Depth of Poverty and Severity of Poverty**

Depth of Poverty and Severity of Poverty have decreased nationally, both in rural and urban areas, which show the same trend as the poverty rates have shown. In a whole country, Chittagong Division shows the lowest Depth of Poverty and Severity of Poverty and those of Dhaka, Rajshahi and Sylhet have improved as well. On the other hand, Depth of Poverty and Severity of Poverty of Barishal and Khulna Divisions have deteriorated and those of Barishal are the highest in the country.

### **1-7 Poverty Profiles in Non-economic Dimensions**

This section attempts to understand poverty from non-economic aspects, including living conditions and social services.

#### **Rural Poverty**

Improvements in mobility, skills, and productivity have helped substantial numbers of households escape poverty. However, those who live in remote areas and unfavorable agricultural environments, those who have limited access to transport, power and other infrastructure, female-headed households, illiterate people and agricultural wage laborer remain impoverished. Rural poor tend to depend on volatile daily wage incomes, to hold liquid financial and livestock assets, as they cannot easily access to land<sup>1</sup>.

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<sup>1</sup> ADB, "Country Strategy and Program Bangladesh", October 2005, pp.96~97.

## **Urban Poverty**

Livelihoods of urban poor in slums are more disadvantaged than those of the rural poor because of the limited urban employment opportunities, degraded environmental health conditions and worse housing and sanitation. Compared with the rural poor, the urban poor tend to be far more heterogeneous in terms of gender, occupation, caste, age and other social characteristics. Many of the jobs the urban poor are engaged in are labor intensive, negatively affecting health conditions, and not more than earning daily wages and having less growth potentials. Therefore, the urban poor are still in a difficult situation to escape poverty.

### **1-7-1 Educational Status**

The poverty rates of people whose household heads are illiterate are higher than those whose household heads are literate both in rural and urban areas. In particular, strong negative correlation between literacy rates and poor or extremely poor is observed in urban areas. On the contrary, the higher the literacy rates of household heads, the lower the poverty or extremely poverty rates in urban areas.

### **1-7-2 Land Ownership**

Traditionally, agriculture was the most important industry in Bangladesh and poverty rates became lower as sizes of owned land became bigger. However, as the economic structure diversifies, the relative importance of agriculture decreased and the positive correlation between the size of owned land and poverty improvement rates is not necessarily observed in recent years. According to HIES 2005, while the poverty rates of landless people is 46.3 per cent, those of owners of land which is less than 0.05 acre is 56.4 per cent, which is higher than landless people. Regarding the rates of extremely poor, landless people records 25.2 per cent, but owners of land, which is less than 0.05acre, is 39.2 per cent, which is higher than those holding 0.05 to 0.49 acres of land.

### **1-7-3 Main Occupations of Household Head**

According to HIES2005, estimates of incidence of poverty show high rates in agriculture, forestry and fisheries, clerical, related works and government executive, production, transportation and related workers and services workers. In terms of religious background, Muslim families show higher incidence of poverty rates in 2000; however, non-Muslim families show higher rates nationally and in rural areas in 2005.

#### **1-7-4 Gender**

Women are more vulnerable to poverty in Bangladesh. Historically, socially prescribed roles have limited women's access to economic resources, political participation and decision-making process. Women's wages are about half of those of men and wage levels *per se* are low. Women's employment is often temporary. Literacy rates of women are about 30 per cent in 2006, which is lower than men's 50 per cent. Women and children are still trafficked.

The government has taken various measures to close the gender gap. As a result, there are improvements in some indicators such as women's average life expectancy rate, which becomes longer than that of men, and girls' primary enrollment rates, which exceed those of boys.

#### **1-7-5 Household Characteristics**

There is a tendency that women headed households show lower poverty rates compared with men headed households. The poverty rates of widow and divorced households are high.

#### **1-7-6 Health and Medical Conditions**

It is highly likely that worse health indicators such as high infant and children under five mortality rates, short height for age, and underweight for age are observed in low-income households. On the other hand, the higher the income levels of households, the higher the rates of vaccination, rates of pregnant and nursing mothers who consult their doctors and rates of deliveries attended by trained personnel. Furthermore, the birth control rates and proportion of population who know about HIV/AIDs prevention are higher in high-income households.

#### **1-7-7 Living Conditions**

The rate of households with access to electricity has increased. While households having radios have increased, those having televisions are mainly limited to high-income households. In terms of sources of drinking water, majority of population use tube well water. Regarding types of toilet facilities, the rate of population who use open space has decreased nationally, except for poor segment of them whose share of using open space as toilet is still high. Looking at main dwelling structure by materials of wall and residence, high-income households use cement for wall and floor, while the rest use mud and bamboo for floor and hey/straw/bamboo/leaves for wall.

### **1-7-8 Natural Condition**

Bangladesh is vulnerable to natural disasters, particularly floods, due to her nature of its terrain, the physical geographic features including an extensive network of rivers, the long coastline and the tropical climate. Bangladesh has adjusted itself to a wet season when every year about 20 to 25 per cent of its land area remains under water. The climate change causes floods, which threaten food security as well as lives of people. Floods and cyclone not only kill many people, but also make households economically poor when main income earners die. They also affect agricultural production, which resulted in food shortage. Floods and cyclone destroy various infrastructure such as residential places, road networks, educational facilities, markets and administrative offices as well. Natural disasters affect lives of people either directly or indirectly, which become causes of poverty in the short and long run: outbreaks of cholera and other waterborne and diarrheal diseases such as dengue, and malaria affect physically; and withdrawal of people from disaster stricken area and destruction of ecology. In recent years, people started to recognize the seriousness of Monga (seasonal vulnerability caused by floods) domestically and internationally.

### **1-8 Future Views on Poverty Reduction**

Based on the HIES results, it is pointed out by ADB that the sharp decline in poverty during 2000–2005 is attributed to consumption growth and the higher annual GDP growth of 5.5 per cent during 2000–2005 compared with 5.0 per cent during the 1990s. It also states that the steady increase in access of the poor to microcredit, workers' remittances, and social services also contributed to the steep decline in poverty and that poverty rates will decline to 22 per cent by 2015 if the current trends continue.

The increasing employment opportunities in non-agricultural production in rural areas, which emerged during the diversification process of livelihoods in rural areas in addition to traditional agriculture, enables the poor escape from poverty. Basic human skills such as educational levels, literacy rates and health conditions, access to electricity, infrastructure including roads, financial systems including microfinance, and remittance from abroad play an important role for the poor to work in non agricultural production. Since the agriculture has been the main industry, type of land ownership has been one of the important factors of poverty. However, it

becomes more important to consider factors other than land ownership as non-agricultural employment opportunities increase.

## **Chapter 2      Government Policy and Actions for Poverty Reduction**

### **2-1      National Development Plan and Poverty Reduction Strategy**

“Unlocking the Potential” is the Bangladesh’s Poverty Reduction Strategy Paper (PRSP) for 2005 through 2007. PRSP was further extended for another one year to June 2008. Previous Five-Year Plan was replaced by the PRSP, which becomes the basic policy to allocate Annual Development Plan (ADP).

#### **2-1-1      Poverty Reduction Strategy Paper**

In order to fulfill the vision of poverty reduction, PRSP identifies four strategic blocks and four supporting strategies. These four blocks are: (1) Enhancing pro-poor growth; (2) Boosting critical sectors for pro-poor economic growth; (3) Devising effective safety nets and targeted programs and (4) Ensuring human development. Four supporting strategies are: (1) Ensuring participation, social inclusion and empowerment of all sections, groups and classes of people; (2) Promoting good governance by ensuring transparency, accountability and rule of law; (3) Providing service delivery efficiently and effectively, particularly to the poor and (4) Caring for the environment and sustainable development on a long-term basis.

#### **2-1-2      Progress of PRSP**

PRSP implementation indicators were not adequately checked without appropriate monitoring activities. However, stakeholders started to have an intention to monitor overall outcomes of PRSP since the beginning of 2007.

#### **2-1-3      Achievement of MDGs**

The Millennium Development Goals (MDGs), a set of eight goals for (1) the eradication of poverty and hunger, (2) education, (3) health care, (4) gender and (5) environment and global partnership in terms of poverty and hunger, are to be accomplished by 2015.

Regarding the achievement of MDGs, which requires reaching concrete goals in the above-mentioned five areas, Bangladesh as a whole makes a steady progress. However, it is worth noting that there is a possibility not to reach MDGs at regional levels. According to the

World Bank, some MDGs indicators do not show improved results in districts such as Noakhali, Pathuakali, Chittagong, Rajshahi and Sylhet. Regarding governance issues, problems exist in supplying social services.

## **2-2 Employment**

Employment opportunities in formal sector are limited in Bangladesh and 80 per cent of workers are employed in the informal sector. Unemployment rates amongst the youth are high as well, and unemployment and poverty among certain groups who were earlier employed but were laid off or retrenched due to the privatization and closing down of mills and factories have increased. Furthermore, while women's share of wage employment in manufacturing has increased, gender inequalities with respect to employment and wages still persist. Inadequate coverage of existing social protection schemes and child labor are also serious problems.

PRSP is a medium term development plan and proposes indirect measures to empower poor people such as capacity building, and short-term employment creation measures such as strengthening safety net programs, and does not propose concrete long term specific industrial promotion policies.

## **2-3 Strengthening Safety Net**

The government has a policy to strengthen safety net programs targeted for extremely poor people who are not benefited from the economic growth. Short-term employment opportunities for poor and elderly people are generated through various safety net programs. Safety net programs have contributed to increase incomes and investment opportunities of poor households and to reduce vulnerability of the poor in terms of food and health conditions. By targeting women, the programs have played a certain role for the poor to escape poverty such as enhancing women's participation in a decision-making process within households, improving health conditions of family members and promoting small scale investment for future income generating activities. The government has an intention to increase safety net program budgets from now on too, expecting for expanding coverage of the programs.

## **2-4 Agriculture and Rural Development**

In Bangladesh, three-quarters of the country's total population and 85 per cent of the total number of the poor live and earn their livelihood in the rural areas. Agriculture contributed

about 25 per cent of GDP and another 36 per cent was generated by the rural non-farm sector. Taking these into consideration, the government has identified agriculture and rural development as the topmost priority sector for rapid poverty reduction.

Agriculture and rural development is included in Strategic Block II: Critical Sector for Pro-Poor Economic Growth of PRSP. The policy framework in place to support this strategic choice focuses on four issues: intensification of major crops (i.e. cereals); diversification to high-value non-cereal crops (i.e. vegetables and fruits); development of non-crop agriculture (i.e. fishery, poultry, livestock) and promotion of rural non-farm activities (i.e. rural construction, transport and services).

## **2-5 Rural Infrastructure**

Major components of the physical infrastructure in Bangladesh are: power (rural and urban); gas; renewable energy (solar energy, coal and other minerals); transport (road, railway, inland water and air) and ports (sea, air and land).

PRSP recommends following five broad aspects to improve the sector: (1) rationalization of sectoral incentives; (2) setting appropriate pricing policy; (3) reduction of systems loss; (4) sectoral restructuring and (5) good governance. Maximizing the growth and poverty reduction impact of the infrastructure will also depend on successfully linking the infrastructure investments with sectoral infrastructure service requirements.

## **2-6 Promotion of Private Investment**

PRSP states that promotion of private investment is one of the measures to achieve rapid economic growth and following policies are proposed: providing appropriate fiscal incentives; arranging for freehold land; facilitating entrepreneurship development among women; facilitating technological upgrading and improving business support services.

## **2-7 Human Resource Development**

PRSP's four strategic blocks include "human development of the poor for raising their capability through education, health, nutrition and social interventions". Human resource development, in line with infrastructure development, is considered seriously in the budget allocation. The government considers education as one of the most effective instruments for human

development, poverty alleviation and reduction of gender disparity. Therefore, the government has allocated the highest budget for the education sector in the past several years. The government has accorded highest priority to education especially in primary and mass education. Regarding health sector, user friendly, effective and efficient, fairly accessible and high quality services are pursued mainly by “Health and Nutrition and Population Sector Program” of the World Bank.

### **2-7-1 Education**

The Government enacted “the Primary Education (compulsory) Act” in 1990 and enforced it nationally in 1993. In line with PRSP, the government has adopted various measures for ensuring universal primary education by 2015. The government is implementing reform measures to improve the equality of education submitted by the Education of Commission. These measures include strengthening national institute for teachers’ training, establishing non-government teachers’ registration and certification agency, preparation and publication of textbooks and privatization of distribution of textbooks, decentralization of educational administration and so on.

### **2-7-2 Health and Medical Care**

Health indicators have improved rapidly since 1990s in Bangladesh. Crude birth rates and crude death rates declined both in urban and rural areas. Population per physician declined from 4,725 in 1994 to 3,532 in 2003. Average life expectancy at birth (years) also improved from 58 in 1994 to 64.9 in 2003. Infant and children under five mortality rates, and maternal mortality rate declined as well. These improvements are observed in rural areas where poor people mainly live.

### **2-8 Microfinance**

Microfinance is regarded as an important measure to reduce poverty and the government recognizes it as the most visible anti-poverty instrument. PRSP states that upscaling micro-credit (a service of microfinance) and enhancing its poverty impact will be an important factor in realizing the goals of accelerated poverty reduction. This is particularly so in a context in which there is a growing void in rural finance due to poor performance of specialized banks and withdrawal of the formal banking sector in response to reform measures. The government has implemented many credit programs targeted for extremely poor. The government

promotes microfinance sector by setting up the Microcredit Regulatory Authority, which formalizes microfinance institutions by providing licenses. Palli Karma Shahayak Foundation (PKSF) was also created as a wholesale organization of microfinance.

#### **2-8-1 Present Situation**

Numbers of Microfinance Institutions (MFI) and the beneficiaries increased rapidly since the 1990s. Total beneficiaries reached to 22.5 million people in 2005 and the outreach to poor households is said to be 75 per cent. MFI has provided various financial services including microcredit mainly to poor people who are engaged in informal economic activities. As a result, the poor people can increase their income, hence accumulate the assets and they become less vulnerable to various changes. Microfinance has empowered women by improving their access to financial services. Therefore, women's access to education, nutrition, and their participation to decision-making process within households have been improved as well. Non-income impact of microfinance such as women being elected as representatives of local parliaments is observed.

#### **2-8-2 Government Policy and Strategy**

The government has provided loans to rural poor who do not own production means such as land at low interest rates similar to those of commercial banks. It is expected that the poor can increase income from non-agricultural sectors and become independent economically, and can be engaged in labor intensive public works. The government, through related ministries and agencies or banks, provides many programs to extremely poor people to whom MFI cannot approach.

### **2-9 Gender and Environment**

#### **2-9-1 Gender**

The elimination of gender gap is one of the government's main strategies. PRSP considers gender in the framework of "Supporting Strategy I: Ensuring Participation, Social Inclusion and Empowerment" in the context of including the needs of excluded, non-empowered, and vulnerable in the society in order to make the national poverty strategy complete. "Strengthening the Focus on Women's Rights and Advancement" of the "Supporting Strategy I"

requires the government to take action to attain the following goals: (1) ensure women's full participation in mainstream economic activities; (2) ensure social protection for women against vulnerability and risks; (3) enhance women's participation in decision making; (4) promote gender equality and empowerment of women; (5) ensure women's participation in international forums and (6) strengthen institutions for monitoring and evaluation of gender equality issues.

#### **2-9-2 Environment**

Bangladesh has been most adversely affected by natural disasters in the world. The government has taken the following initiatives to develop and conserve environment for preventing vast environmental disasters and pollution control: Preparation of National Land Policy, National Water Policy, National Water Management Plan, Control of Air Pollution, Control of Pollution from Brick Kilns, Conservation of Ecology, Industrial Pollution Control, Control of Noise Pollution, Conservation of Biodiversity, Climate Change and Protection of Ozone Layer.

#### **2-10 Governance**

The government recognizes the issue of governance as one of the third elements of the policy triangle for seeking a medium term strategic agenda of PRSP. PRSP states the following broad action agenda on good governance as desirable goals: the reform of judicial systems; public administration reform; anti-corruption; decentralization; strengthening accountability and participation and public expenditure management. The government aims at improving the service delivery by strengthening government's partnerships with the private sector and communities in a wide range of service provision through development of NGOs and CBOs.

## **Chapter 3 Partnerships for Poverty Reduction**

### **3-1 Overview of Development Cooperation to Bangladesh**

The World Bank, Asian Development Bank, United Kingdom (DfID) and Japan account for about 80 per cent of the total bi- and multilateral foreign assistance to Bangladesh. Reflecting the government intention to tackle with poverty by developing economic infrastructure and human resources, economic infrastructure such as power and transport and social sectors such as health and education receive high volumes of the assistance.

### **3-2 Present Situation of Partnerships**

Local Consultative Group (LCG) is a forum for development dialogue and donor coordination in Bangladesh. LCG is composed of 32 Bangladesh-based representatives of bilateral and multilateral donors, government organizations, domestic and foreign NGOs in Bangladesh. Stakeholders cooperate together and conduct a dialogue through the forum.

### **3-3 Major Donors' Assistance Strategy for Poverty Reduction**

The World Bank's strategy, strongly focused on governance, is aligned with the PRSP. It reflects two pillars of the Country Assistance Strategy (CAS) - Pillar 1: improving the investment climate and Pillar 2: empowering the poor. These two pillars reflect the focus of the World Bank's programs across sectors. The Asian Development Bank formulated its assistance strategy which is aligned with the National Poverty Reduction Strategy, based on the followings: (1) improving the investment climate for private sector-led growth and employment; (2) advancing the social development agenda to empower the poor so that all benefit from growth; and (3) addressing key governance issues to enable growth and social development. United Kingdom (DfID) is presently finalizing an interim country strategy (Interim Country Assistance Plan) for Bangladesh. Main assistance areas would be: (1) governance such as reduction of corruption, improvement of service supply and security; (2) improvement of basic services such as health, education, water supply and sanitation; (3) employment generation, private sector development, financial services, market, rural infrastructure and (4) reduction of the extremely poor (10 per cent from the bottom line) and mitigation of the vulnerability to natural disasters.

### **3-4 Development Cooperation for Poverty Reduction by Private Civil Societies**

PRSP considers that NGO's service delivery, which takes into account of the poor, and its

facilitating roles contribute to achieving poverty reduction goals. There are a number of ways through which donors provide direct financing to NGOs in Bangladesh. The most common is funding for specific projects. Where financing needs are large, donor funds may be pooled and a donor-liaison function introduced, to coordinate support and reduce transaction costs for the NGO.

There are a number of issues that are currently at the forefront of the public policy debate on NGOs. These include: (1) perceived weaknesses in the regulatory framework and in the financial accountability of NGOs; (2) the scope, impact and cost-effectiveness of NGO activities including the trade-offs between service delivery and advocacy; (3) the implications of shifts in NGO financing that has resulted in greater financing through commercial activities and micro-finance revenues and (4) the nature of Government-NGO partnerships, their respective roles and contracting arrangements.<sup>2</sup>

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<sup>2</sup> The World Bank, "The Economics and Governance of Non Governmental Organizations (NGOs) in Bangladesh", August 2005.