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# **Economic and Social Impact of Financial Crisis on Households: A Case Study of Bangladesh with Reference to Social Safety Net Programme (SSNPs)**

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# **Economic and Social Impact of Financial Crisis on Households: A Case Study of Bangladesh with Reference to Social Safety Net Programme (SSNPs)**

**Selim Raihan<sup>1</sup>**

**November 2009**

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# **Economic and Social Impact of Financial Crisis on Households: A Case Study of Bangladesh with Reference to Social Safety Net Programme (SSNPs)**

*Selim Raihan*

## **I. INTRODUCTION**

At the onset of the global financial crisis in the autumn of 2008, there was some debate over whether or not Bangladesh would be impacted by the initial shockwaves or possibly even be insulated from any significant adverse effects. As the country approaches the end of its Fiscal Year 2009, it is apparent that global economy is not going to have a full recovery in 2009, and those areas of the economy that were expected to be negatively impacted have indeed suffered.

This crisis has several downside risks for the Bangladesh economy. However, the impact on the Bangladesh economy will depend on the nature, scope, severity, and duration of the crisis. Although the economy of Bangladesh has become increasingly integrated with the global economy in recent years, the country's financial sector is not as globally integrated as its neighboring countries. Private foreign players are important players in the banking sector; however, foreign portfolio holdings in the equity market are relatively small at only 2.6 percent. Also, currency transfers abroad are restricted, so no question of large-scale capital flight. Therefore, the country's financial markets have yet to feel any direct impact. Financial sector is in relatively good health, underpinned by cautious regulation and several reforms. It is highly insulated from foreign markets and lacks sophisticated financial derivatives linked to Western capital markets. Non-performing loans are decreasing and the capital base is relatively comfortable. Foreign exchange reserves remain well managed and kept mostly in cash, US Treasury securities, accounts with central banks, and in sovereign bonds with no holding of any corporate bonds. The banking system is mostly separated from international financial markets, and does not have sophisticated financial products. The capital account remains nonconvertible with few private transactions permitted such as foreign direct investment and portfolio investment.

However, there are concerns that Bangladesh could feel an impact of the global economic recession. It is true that so far Bangladesh has not felt the impact of the financial crisis. But it is possible in the future through Bangladesh's manpower exports and remittances. Therefore, Bangladesh needs to prepare social safety net programmes in a way that when the crisis comes the government is ready to help those people who are worst affected in the crisis.

This paper examines the impacts of current global economic crisis on the economy of Bangladesh and evaluates the existing social safety net programmes in Bangladesh with a view to understanding the coverage and effectiveness of the programmes, as these SSNPs could be very important in mitigating the negative effects arising from the ongoing global economic crisis on Bangladesh. The paper is organised as follows: Section II presents an overview of the macroeconomic performance of Bangladesh in the era of global financial crisis. Section III provides a brief profile of poverty and vulnerability of households in Bangladesh. Section IV analyses the risk of poverty and vulnerability in Bangladesh due to the global financial crisis. Section V highlights the importance of Social Safety Net

Programmes in combating the poverty and vulnerability in Bangladesh. Section VI presents an overview of different SSNPs in Bangladesh. Section VII, using the latest household income and expenditure survey data, presents an analysis of the coverage of the SSNPs in Bangladesh. Section VIII examines different policy documents of the government of Bangladesh on SSNPs. Section IX explores outreach hurdles and issues related to the expansion and redesigning of Social Safety Net Programmes in the era of global financial crisis. Finally Section VIII concludes.

## II. MACROECONOMIC PERFORMANCE OF BANGLADESH IN THE ERA OF GLOBAL FINANCIAL CRISIS

### 2.1. Economic Growth

Earlier this year, there were some debates on Bangladesh's projected GDP growth rate for FY 2009. Table 1 shows some of the estimates from international organizations such as the International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB) as well as the Bangladesh Bureau of Statistics (BBS).

**Table 1: Growth Projections FY 2008-09**

Organisations	Projected rate %
Asian Development Bank (ADB)	5.6
International Monetary Fund (IMF)	5.0 – 5.5
World Bank (WB)	4.5
Bangladesh Bureau of Statistics (BBS)	5.88

The BBS projection was the most optimistic of all because it considered the country's agricultural sector to be the most accurate barometer of overall economic strength, and this sector had been experiencing robust growth in FY 2009. Also there was no significant loss of agricultural output during that fiscal year as a result of natural disasters; in contrast to FY 2008 when two floods and Cyclone SIDR caused millions of tons of losses in food grains and other essential crops. Table 2 shows the growth rate of some sectors in FY2009 as compared to the previous one.

**Table 2: Growth Rates by Sectors, FY 2008 vs. FY 2009 (%)**

Sector	FY 2008	FY 2009
Overall GDP	6.19	5.88
Agricultural	2.93	4.81
Manufacturing	7.21	5.92
Wholesale & Retail	6.82	6.35
Construction	5.68	5.72
Electricity, Gas & Water Supply	6.77	4.52
Transport & Communication	8.55	7.67
Financial	8.89	8

Source: Bangladesh Bureau of Statistics

It can be observed from Table 2 that apart from agriculture, no other sector has shown significant growth and most of them had lower growth in FY 2009 than the previous fiscal year. Sectors where growth was lower were manufacturing, electricity, gas and water supply,

wholesale and retail trade, transport and communication, and the financial sector. The robust growth in agriculture is a positive development, as agriculture makes up around 16 percent of GDP and employs the most labour, particularly in rural regions. However, the sharp drop in the growth of the electrical, gas and water supply sectors as well as the manufacturing sector can be viewed as a setback in the country's efforts towards industrialization. Infrastructure to supply power and water is woefully inadequate and continues to inhibit overall economic growth. The decline in the manufacturing sector is most directly tied to the global economic meltdown, as some export-oriented industries have been hit hard by the sharp drop in international trade.

## 2.2. Inflation

Inflation has plummeted steadily in the year of 2008-09 in all categories at national level as compared to the preceding year. Table 3 compares the CPI and point-to-point inflation rate for national, rural, and urban. The decline in food price inflation from 12.28 per cent in 2007-08 to 7.18 per cent at national level have played the predominant role for decelerating the overall inflationary pressure, as the non-food price index remained essentially unchanged over these periods. In case of non-food, the items where inflation further goes up in the time of overall reduction are- furniture, furnishing, household equipments & operation, recreation, entertainment, education & cultural services.

**Table 3: Rate of Inflation (1995-96=100)**

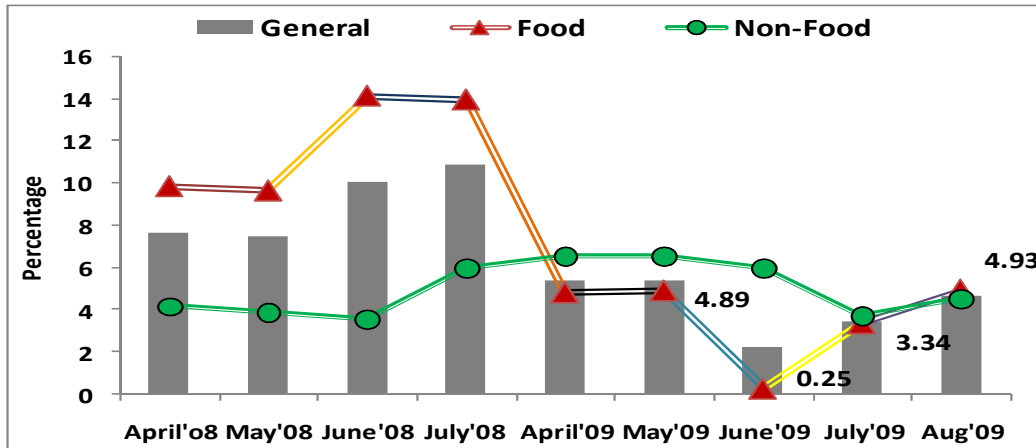
	National			Rural			Urban		
	General	Food	Non-food	General	Food	Non-food	General	Food	Non-food
2006-07	7.22	8.12	5.9	7.29	7.95	6.10	7.03	8.54	5.34
2007-08	9.93	12.28	6.32	9.99	11.94	6.41	9.8	13.05	6.06
2008-09	6.66	7.18	5.91	6.83	7.09	6.33	6.24	7.43	4.8

Source: Bangladesh Bureau of statistics

In August 2009, the rate of inflation on point-to-point basis increased at all categories including general, food, and non-food items. However, the average rate of inflation for food (12-month Point to Point Basis CPI, 1995-96=100) reported at 3.34 per cent in July 2009 and 4.93 per cent in August 2009 from 0.25 per cent of March 2009. On the other hand, the rate of general inflation stood higher at 4.69 per cent in August 2009 as compared of 3.46 per cent in July 2009. It indicates a more tough time for the next few months as government already announces a new pay scale for the government officials and there is a speculation of higher international market price in the upcoming days. In Figure 1, we have compared the inflation percentage during April–August 2009 with the corresponding period of the previous fiscal year. A high correlation is found between the general index and the food index. Except any significant changes for non-food item, the overall inflation has dropped steadily from the last year. However, the higher growth rate of food inflation in recent periods would be another potential threat for the upcoming days.



Figure 1: 12-month CPI inflation at national level



Source: Bangladesh Bureau of statistics

### 2.3. Export

In the time of decelerating export demand in international market, many of the countries in the world have suffered by the slack export growth. Bangladesh yet not recovered its full pace for export earnings though some major counties performance are more distraught. The percentage change of export performance during July-June, 2008-09 over the same period of 2007-08 is recorded 10.31 per cent higher, where the percentage change of export performance over export target is -4.50 per cent. In June 2009, the merchandise export shipment stood higher than the month of May by US\$ 1.42 billion. Table 4 demonstrates the overall development of the export amount and the percentage change of export performance during July- June 2008-09 as compared to the same period of 2007-08. Hence, we have observed a gradual fall in the growth rate in exports from 15.9 per cent to a negative 3.44 per cent.

Table 4: Export performance over the times for Bangladesh on 2007-08 and 2008-09

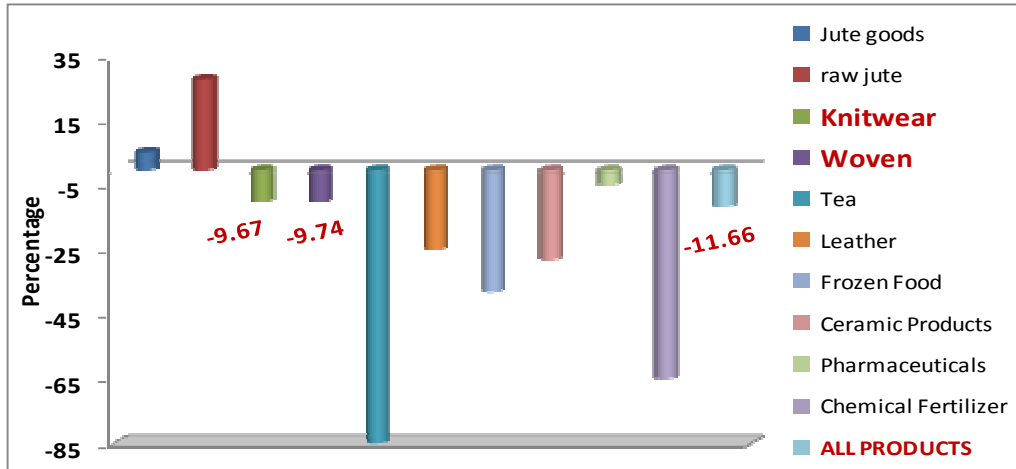
Export performance in different periods	Amount of export (US \$ in billion)	% change in exports
July-February 2008-09	10.35	July-Feb 2008-09 over July Feb 2007-08 = 15.9
July-February 2007-08	8.93	
July-April 2008-09	12.81	July-Apr 2008-09 over July-Apr 2007-08 = 12.76
July-April 2007-08	11.36	
July- June 2008-09	15.56	July-June 2008-09 over July-June 2007-08 = 10.31
July- June 2007-08	14.11	
July- August 2009-10 <sup>P</sup>	2.8	July-August 2009-10 over July-August 2008-09 = -3.44
July-August 2008-09 <sup>R</sup>	2.9	

Source: Export promotion bureau, Bangladesh

Again, we have found a sharp decline of various products and shaky improving indication for raw jute and Jute products. However, the overall growth performance of Bangladesh is predominantly depended on the growth performance of woven garments and knitwear as

these two sectors contribute almost 82 per cent of the overall growth. Knitwear recorded -9.67 per cent growth over the last year's performance while it was short of -7.86 per cent from the target of July-September 2009-10. Again, woven garments are suffering negative growth during July-September 2009-10 as compared to the same period of the preceding year. The growth rate was recorded -16.33 per cent short from the export target and -9.67 per cent downside from the preceding year. Sectors such as leather, frozen food, and tea, are suffering severe slump due to ongoing global demand plunge as well. Figure 3 shows the product wise performance of Bangladeshi export base, where most of the exportable items are now in the crisis zone.

**Figure 2: Percentage change of export performance July-Sept, 2009-10 over July-Sept, 2008-09**



Source: Export Promotion Bureau, Bangladesh

#### 2.4. Imports

L/C openings for industrial raw materials, as a share of total L/C openings during July-August 2009, as compared to the same period of the previous year are showing a declining position. However, we have observed a significant increase in capital machinery and consumer goods that would have direct and circuitous positive impact for attaining the industrial target and output. On the other hand, the fall of Petroleum & petroleum products (8.17 % in July-August 2009 and 11.45 % in July-August 2008) are indicating the lower international price impacted by ongoing global crunch while rise of consumer goods (15.12% during FY 2009 and 6.31% in the same period of 2007-08) are focusing the higher demand of seasonal extra consumption in Ramadan. However, Table 5 states that the sector-wise changes during July-August, 2009 over July-August, 2008 where total fresh LCs opening and outstanding LCs are showing the positive value though settlement of LCs is recorded at US\$ -598.73 million.

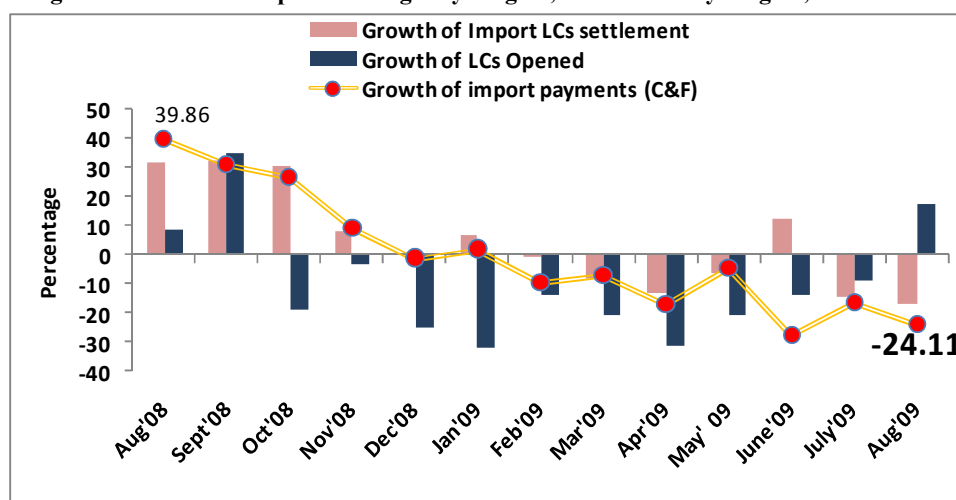
**Table 5: Sector wise changes during July-August, 2009 over July-August, 2008 (in million US\$)**

	Fresh LCs opening	Settlement of LCs	Outstanding LCs at the end of the period
Consumer goods	+398.26	-34.58	+272.58
Intermediate goods	-39.92	+42.65	-101.13
Industrial raw materials	-224.22	-336.98	-114.92
Capital machinery	+23.36	-65.67	-113.48
Machinery for misc. industry	-43.07	+11.16	+85.68
Petroleum & petro. products	-128.58	-198.79	+54.10
Others	+155.01	-16.52	+725.73
<b>Total</b>	<b>+140.84</b>	<b>-598.73</b>	<b>+808.56</b>

Source: Major economic indicators, Monthly updates, Bangladesh Bank, October 2009

Again, in Figure 3, we have simulated the growth rate of import payment, import LCs settlement and LCs opened in the period of July-August 2009 over the same period of 2008. We have found a serious downturn contentiously from last December 2008 to August 2009. In August 2009, the growth rates of import payments, LCs settlement, and LCs openings have recorded -24.11 percent, -16.81 percent, and -17.81 percent respectively while it was 39.29 percent, 31.71 percent, and 8.92 percent respectively during July-August, 2008.

**Figure 3: Growth of imports during July-August, 2009 over July-August, 2008**



Source: Monthly updates, Bangladesh Bank, October 2009

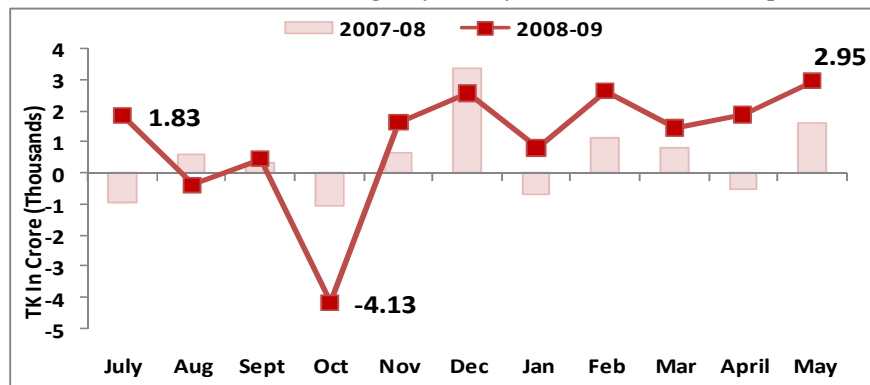
## 2.5. Current Account Balance

For attending a plausible benchmark in current account balance, the higher net current transfer has been performing a decisive role from the last few years. More precisely, this fiscal year is still enjoying the high return from remittances and assists to conceal the overall shortage in trade credits and the negative growth rate of net service and income accounts. Therefore, an overall balance of payment is showing a positive mark in FY 2009 and it can be sad as a good achievement especially in the transaction time of global shortfall.

The trade deficit narrowed to US\$ 4.7 billion during FY 2008-09<sup>P</sup> compared to the short of US\$ 5.3 billion during FY 2007-08<sup>R</sup> where export and imports (f.o.b-including EPZ) stood at US\$ 15583 million and US\$ 20291 million respectively. Meanwhile, the net service and income accounts were US\$ -1621 million and -1361 million respectively. On the other hand, current transfer recorded an increase of US\$ 1697 million or 19.89 percent during FY 2008-09<sup>P</sup>, to US\$ 10226 million as compared to the same period of 2007-08<sup>R</sup>. Consequently, the current account balance of FY 2008-09<sup>P</sup> showed a healthy surplus of US\$ 2636 million, as against of US\$ 680 million in the corresponding months of previous year. The overall balance showed a surplus of US\$ 2058 million during FY 2008-09<sup>P</sup> compared with US\$ 331 million during FY 2007-08<sup>R</sup> and surplus of US\$ 64 million and US\$ 425 million in Q1 and Q2 FY09 respectively.

In Figure 4 the performance of current account balance during July 2008 to April 2009 over the same period of 2007-08 is simulated. After suffering a severe sliding in October 2008, the country has continued to do much better performance until April 2009. The Current Account Balance was moderately higher in 2009 than 2008 during the period of January to April as well.

**Figure 4: Current Account Balance during July to May 2008-09 over the same period of 2007-08**



Source: Monthly economic trends, Vol-XXXIV, No-7

Again, trade balance recorded a lower deficit of US\$ 0.166 billion during July-August, 2009 compared to the deficit of US\$ 0.84 billion of the same months of the preceding year. However, the amount of surplus is lower by 200 million while current account balance recorded a surplus of US\$ 1.3 billion during July-August, 2009 against the surplus of US\$ 1.5 billion during July-August, 2008.

## 2.6. Remittance

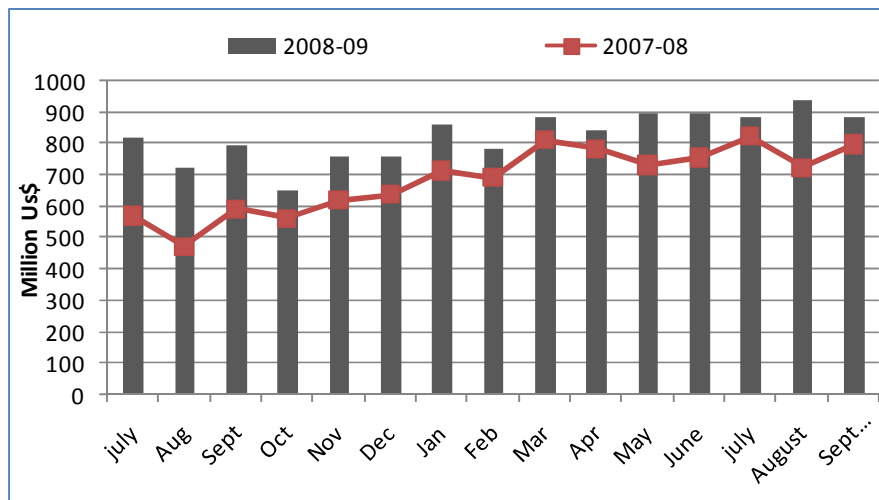
For understanding the stance of remittance, total remitted amount of currency and higher growth rate of remittances are not sufficient as the numbers of exported workers to different regions from Bangladesh must have an important influence for our further reserve money. According to the ministry of expatriates' welfare and overseas employment the bureau of manpower, employment and training (BMET), we have found a sluggish trend of total migrant people from January-October 2009. It may have severe adverse affect for the upcoming years.

In these 8 months (January-October 31, 2009) the numbers of overseas employments were 327,559 while in the same time of 2008 it was higher by 290,721 persons. It implies that almost 50 percent of the overseas employees were short in this time gap. On the other hand, the numbers of returning persons are also higher from the last year. According to the Bangladesh association of international recruiting agencies (BAIRA) Saudi Arabia and Malaysia are the two countries where numbers of returning persons are high enough. In 2008, the numbers of remit persons from Bangladesh to Saudi-Arabia was 132,124 while in the last eight months it was only 10,777. In case of Malaysia, the numbers of remit persons in 2008 was 131,762 and it was only 12,213 during January-August 2009.

Bangladesh Government and Bangladesh Bank have taken some initiatives to tackle the threat of employment cut in gulf regions, euro regions, and Asia pacific regions. Government also encouraged the workers to go to those countries which are not yet fully explored. The special facilities for the NRBs who send \$5000 and more per annum and provisions to provide loans to labor migrants are important to face the adverse impact of the current global meltdown. Bangladesh bank also targeted to increase the remittances through the official channels and maintain the better services by commercial banks. These steps are taken to address the shortfall in monthly growth rates and decelerating performances in the outflow of migrant workers.

Remittances in September stood at US\$ 887.92 million lowers than US\$ 937.91 million during August 2009 though it was higher by 11.80 percent compared to the figure in September 2008. On the other hand, total remittances receipts during July 2008 to June 2009 increased to US\$ 9689.26 as compared to US\$ 7914.78 million during the corresponding period of 2007-08. In Figure 5, inflows were higher in every month against the corresponding months of previous fiscal year. It implies that remittance inflows continue to exhibit robust growth with an expansion of 22.41 per cent of FY 2009 over the same period of the preceding fiscal year.

**Figure 5: Monthly inflow of remittances, July-Sept 2009-10 over July-Sept 2007-08**

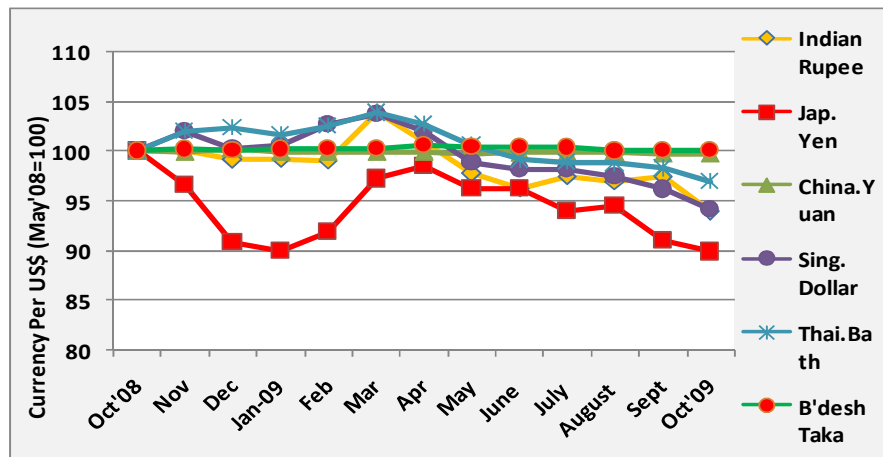


Source: Major economic indicators: Monthly and weekly updates, Bangladesh Bank

## 2.7. Exchange Rate

In Figure 6 we have computed the monthly average nominal exchange rates against the US dollar for the countries of Bangladesh and some of its major Asian trading partner. Taking October 2008 as the base (October 2008=100) we have compared trend of last twelve months from October 2008 while Taka has remained fairly steady without any major fluctuations. Exchange rate of Taka per US\$ increased to Tk. 70.06 at the end of September 2009 from Tk. 69.95 at the end of August, 2009 and it depreciated by 0.15 per cent. However, Taka was appreciated by 0.38 per cent in August 2009 from June 2009 when USD/BDT was recorded at Tk. 70.22. In case of major Asian trading partners, a sharp appreciation has been occurred in between March 2009 to October 2009 while Indian Rupee and Japanese Yen are experiencing at higher pace. As Bangladesh imports a considerable amount from India, china and some other countries, the cost of these imports should be considerably higher as a result of the appreciation of their countries.

Figure 6: Monthly average nominal exchange rates Vs US\$ (March=100)



Source: Reserve bank of respective counties

## III. POVERTY AND VULNERABILITY PROFILE OF THE HOUSEHOLDS IN BANGLADESH

Poverty in Bangladesh is seen as the most acute problem. However, the estimates the poverty in Bangladesh is rather problematic because of lack of quality data as well as due to changes in methodology in various household surveys over the years.<sup>2</sup> A summary of poverty trends and poverty dynamics in Bangladesh is presented below.

<sup>2</sup> Overtime comparability of poverty estimates are difficult due mainly to changes in the methodology of data collection and poverty estimation. It is convenient to consider the period between 1995/96 – 2005 when the Household Income and Expenditure Survey (HIES) began to use consistent data collection and poverty estimation methodologies. For details around these issues see Ahmed (2000).

**Table 6: Trends in Poverty Estimates in Bangladesh during 1983–2005**

Year	Head Count Poverty			Poverty gap	Squared poverty gap
	National	Urban	Rural		
1983/84	52.3	40.9	53.8	15.0	5.9
1988/89	47.8	35.9	49.7	13.1	4.8
1991/92	49.7	33.6	52.9	14.6	5.6
1995/96	53.1	35.0	56.7	15.5	5.7
2000	49.8	36.6	53.1	13.8	4.8
2005	40.0	28.4	43.8	9.8	3.1

Source: Sen (2003) and Bangladesh Bureau of Statistics (2006)

Table 6 suggests that the official figure for the estimated level of poverty of the country immediately after independence stood as high as 82.9 percent in 1973–74. The later half of the 1970s marked the beginning of a rapid decline of poverty followed by an interruption during the 1980s. Poverty continued to decline during the 1990s and the pace of reduction was even faster during the fast half of the 2000s as can be seen in Table 1. Poverty declined from over 80 percent in the early 1970s to around 40 percent in 2005. People living below the poverty line have declined almost 1.5 percentage point a year in the 1990s which is quite impressive. More importantly, analysis based on the distributionally sensitive poverty measures indicates that there has been a substantial improvement in the living standards of the poorer section of the population during the period 2000–05 as revealed by a greater decline in the depth and severity of poverty in rural areas than in urban areas. Nonetheless, the impressive poverty reduction record is little comfort as the challenges ahead are quite enormous.

First, poverty still remains at a very high level and the number of people living below poverty line remains almost the same as it was in 1991–92 (about 60 million). The most startling consequence of widespread poverty is that a quarter of the country’s population -36 million people – cannot afford an adequate diet, according to the 2005 estimates of food poverty or extreme poverty (BBS, 2006). Chronically underfed and highly vulnerable, they remain largely without assets (other than their own labour power) to cushion lean-season hunger or the crushing blows of illness, flooding, and other calamities (Quisumbing, 2007).

Second, faster poverty reduction during the 1990s was also accompanied by rising inequality measured by private consumption expenditure distribution which is a major concern for policy makers. During the period 1991–2000, the level of consumption inequality increased from 31.9 to 37.9 percent in urban areas and from 25.5 to 29.7 percent in rural areas. Rising inequality has the potential to dampen the pace of economic growth as well as the poverty reduction outcomes (Sen, 2003).

Third, there are significant regional variations of poverty. Poverty is more pronounced in some areas and regions of the country which suffer from flooding, river erosion, mono cropping and similar disadvantages. Poverty is highest in the western region of the country (Rajshahi Division) followed by Khulna and Chittagong.

Finally, while these static point-in-time poverty estimates are useful for a snapshot of the poverty situation, they are not much useful to explain the gross movement of households in and out of poverty. Empirical evidence suggests that the gross movements in and out of

poverty are much larger than the net aggregate poverty outcomes indicated by static estimates. To have a proper grip on policy perspectives, it is necessary to understand the underlying dynamism that propels households in and out of poverty.

There are a number of studies (e.g. Rahman, 1996, 2002; Sen 1996, 2003) that incorporate the notion of risks and vulnerability in understanding the dynamics of poverty particularly in rural areas of Bangladesh. The panel study of 62 villages by the Bangladesh Institute of Development Studies (BIDS) and the Power and Participation Research Centre (PPRC) was one of the earliest of this nature. It has been found that the poor are not just a simple homogenous population that can be neatly categorised into one or two groups. There are considerable variations and mobility among the poor. Apart from the limited asset base and adverse socio-political environment, the poor and the vulnerable are subject to periodic shocks such as natural disasters, illness and insecurity which often result in fluctuating economic fortunes. There are also factors that help them move out of poverty. Using a two period panel (1987/1988 and 2000) consisting of 379 households from 21 villages, Sen (2003) has made similar attempts to explore the dynamics of poverty in rural areas. He adopts the rural livelihood framework coined by Ellis (2000) to analyse (the lack of) mobility of households in and out of poverty and identifies four groups: i) the 'always poor' who remained poor in both periods and constitutes 31 percent of the sampled households; ii) the 'never poor' who stayed out of poverty in both the periods with the share of 25 percent; iii) the 'ascending households', who escaped from poverty and represents 26 percent of the households; and iv) the 'descending households' who descended from the non-poor into poverty with the a share of 18 percent. The difference of eight percent between the share of the 'ascending' and the 'descending' households is the net change in poverty during this period. The study again confirms that mobility among the poor and vulnerable is far greater than what we observe of net aggregate poverty changes at national level. More recently, Quisumbing (2007) reports similar movements of households in and out of poverty.

#### **IV. RISK OF POVERTY AND VULNERABILITY IN BANGLADESH DUE TO THE GLOBAL FINANCIAL CRISIS**

As has been mentioned before, the risks of negative impacts of global financial crisis in Bangladesh remain mainly in the areas of export earnings and remittances. The following sections presents a discussion on the possible impacts of the global financial crisis on poverty and vulnerability thoughts its negative impacts on exports and remittances.

##### ***4.1. RMG Shock***

Bangladesh, though not so much globalized financially, depends a significantly on foreign trade. More significantly, its exports including readymade garments, shrimps, leather, etc are heavily dependent on the western consumer demand. Therefore, falling employment and hence the declining income of the average consumers in the USA and Europe are likely to have serious impacts on her export potentials.

The sharp contraction in international trade activities that occurred as a result of the global financial crisis has brought most of the export activities down in recent months. In terms of both volume and value, the leather, jute, tea and frozen food industries have experienced



negative growth rates over this period. The ready-made garment (RMG) sector has had solid rates of growth, but it must be noted that there has been a significant decline in orders since the beginning of the year.

The RMG industry in Bangladesh started its manufacturing since the early 1980s and became the most dominant sector of the economy within a decade or so. While export earnings from the RMG sector were as low as US\$ 32 million in 1983-84, they increased to a staggering figure of around US\$ 10 billion by 2007-08. By now the export basket of Bangladesh is very much concentrated, as only a single sector accounts for more than three-fourth of the country's total export earnings (Table 7). There has been significant rise in the number of RMG factories over the last three decades. Currently, around two and half million workers are employed in this sector, of which 80 percent are female. Therefore, any negative shock to the RMG sector will have a profound impact on the economy and the human development status, including the gender development status of the country.

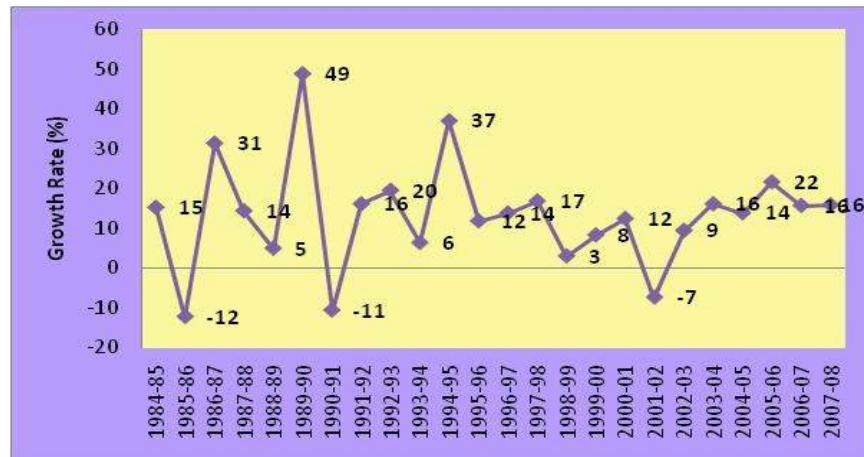
**Table 7: Importance of RMG exports for Bangladesh**

Year	No of Factories	Employment in Million	Export of RMG in Million US\$	% of total Exports	Value Addition (%)
1983-84	134	0.04	31.57	3.89	-
1990-91	834	0.402	866.82	50.47	-
1994-95	2182	1.2	2228.35	64.17	17.7
2000-01	3480	1.8	4860.12	75.15	46.53
2004-05	4107	2.1	6417.67	74.15	64.67
2007-08	4740	2.5	10699.8	75.83	70

Source: Website of BGMEA

Bangladesh's RMG sector managed to benefit from the protectionist's policies pursued in major export markets, most notably in the EU. The MFA quotas not only restricted supplies from the most efficient global producers, but also helped keep prices higher than what would have been possible under the competitive conditions. On the other hand, favorable domestic trade policy reform through the use of a set of generous support and promotional measures for exports have been very instrumental for the expansion of the RMG industry in Bangladesh. Important export incentive schemes available in Bangladesh include, amongst others, subsidized rates of interest on bank loans, duty free import of machinery and intermediate inputs, cash subsidy, and exemption from value-added and excise taxes. Figure 7 shows the year-on-year growth rates of Bangladesh's RMG exporters. It appears that, in general, the growth rate has been on rising trend during the 2000s. Interestingly, the phasing out of ATC did not have any negative impact on the growth of RMG sector in Bangladesh.

**Figure 7: Growth of RMG Exports from Bangladesh**

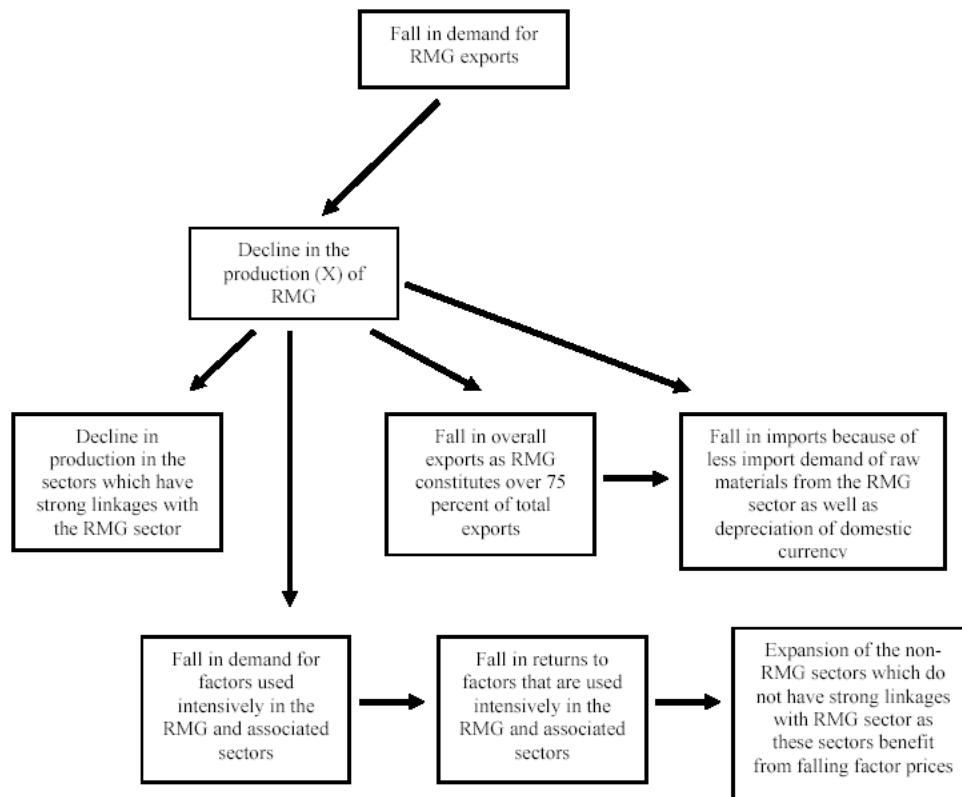


Source: Website of BGMEA

The future of the RMG industry will be critical for Bangladesh’s socio-economic development. Although the evidence on trade-growth and trade-poverty relationships as found in academic studies is far from being conclusive, there is no denying that the growth of RMG exports has been associated with the overall economic growth of the country accompanied by a remarkable progress on poverty alleviation by creating massive employment opportunities for mostly unskilled workers. It can be mentioned here that the period covering years 2000 to 2005 experienced fall in head-count poverty by 9 percentage points along with robust performance of RMG sector in Bangladesh. Raihan and Khondker (2008), using a computable general equilibrium (CGE) model find that the growth in RMG exports contributed to fall in poverty by more than 1 percentage point out of that 9 percentage points fall in head-count poverty.

As mentioned above, the export basket in Bangladesh is highly concentrated and the RMG sector alone constitutes more than 75 percent of total exports. Therefore, the export sector is much vulnerable to any external shock. Current global financial crisis and the resultant economic downturn in the developed countries’ markets have raised some serious concerns with respect to falling earnings from RMG exports from Bangladesh. Keeping this context in mind here we generate a scenario using a computable general equilibrium (CGE) model for Bangladesh, which entails a 20 percent fall in woven and knit RMG exports. Figure 8 depicts the channels through which RMG export shock affects sectoral prices and output.

**Figure 8: Channels through which RMG Export Shock Affects Sectoral Prices and Output**



The macroeconomic impacts of the simulation are reported in Table 8. It appears that the scenario results in negative growth in real GDP compared to the base year. Because of the negative shock in the woven and knit RMG exports, manufacturing sector as a whole suffer from negative growth. On the other hand, agricultural and services sectors register some small positive growth. Consumer price index rises and aggregate consumption falls. Exchange rate depreciates and imports and exports fall. The wage rates of agricultural labor rise while those of non-agricultural labor fall. Returns to non-agricultural capital and land fall while those for other agricultural capital rise. The sectoral effects suggest that the fall in export demand for woven and knit RMG accounts for decline in the production in these two sectors by almost the similar margins. This also leads to a decline in the production in the sectors which have strong linkages with woven and knit RMG, such as mill cloth and other textile. Because of the depreciation of exchange rate import prices rise. This rise in import prices leads to fall in imports. Also because of the contraction of woven and knit RMG sectors, the demand for imported raw materials decline which also contributes to reduction in import demand. The FOB export prices for WOVEN and KNIT RMG rise which indicate a loss in competitiveness of such exports from Bangladesh. It also appears that there is a contraction of domestic demand for manufacturing and services products which is a result of falling incomes of the households. Such a scenario leads to fall in welfare and real consumption for all households and the poor households suffer more than the non-poor households.

**Table 8: Macroeconomic Effects of RMG Shock**

Variable	% change from the base year value
Real GDP	-0.55
Agriculture	0.13
Manufacturing	-1.88
Services	0.48
Consumer Price Index	0.18
Consumption	-0.39
Exchange Rate	4.93
Imports	-6.83
Exports	-13.09
Return to labor agricultural unskilled	0.40
Return to labor agricultural skilled	0.70
Return to labor non-agricultural unskilled	-1.10
Return to labor non-agricultural skilled	-0.80
Return to capital	-0.60
Return to land	-0.20

Source: Authors' calculations based on simulation results.

It also appears that, under this scenario consumer price indices (CPIs) for all household categories would increase (Table 9). It is also observed that, nominal incomes of all household categories would fall. This would lead to fall in welfare and real consumption for all households. Poorer households would suffer more than the non-poor households.

**Table 9: RMG Shock: Impact at the household level (percentage changes from the base-run)**

Households	CPI	Nominal Income	EV	Real Consumption
Landless	0.25	-0.30	-0.48	-0.16
Marginal farmers	0.19	-0.14	-0.43	-0.13
Small farmers	0.20	-0.02	-0.44	-0.13
Large farmers	0.19	0.19	-0.43	-0.12
Rural non-farm poor	0.22	-0.32	-0.44	-0.13
Rural non-farm non poor	0.21	-0.28	-0.43	-0.11
Urban low education	0.15	-0.54	-0.39	-0.10
Urban high education	0.08	-0.38	-0.26	-0.05

Note: CPI = Consumer Prices Index; EV = Equivalent Variation

Source: Authors' calculations based on simulation results.

Nearly 90 percent of Bangladesh's RMG exports are destined to markets in developed countries, mostly to US and EU markets. With the ongoing recession in the US and EU, it is likely that exports will be hurt. There are some moderating factors that should be considered. Since the country's RMG exports mainly cater to the low price segment of the apparel market, the current slowdown may create less impact on the country's RMG exports. With incomes falling, even some diversion of demand from the high-end garment segment to low-end may take place. But people may also compensate by not diverting to low-end and just buying far less high-end clothing. Major purchasers of RMG products may move to take advantage of the market situation by negotiating less favorable order contracts for suppliers from LDCs. There are also recent evidences that negotiations for orders are being diverted from India, Turkey, Indonesia, and Cambodia. Latest data from government indicates exports during Jul 2008 - Feb 2009 up about 20 percent from the same period of the previous year. It

can however be mentioned that the extent to which the crisis will hurt Bangladesh’s RMG exports is still unclear. But, there are concerns that worrying days are ahead if recession prolongs. Therefore, government can’t be complacent. So Bangladesh must be prepared to face this crisis. Policy adjustments may have to be made at any time as demanded by the depth of the crisis. A high profile taskforce, in addition to the routine monitoring by technical groups, will have to be functioning continuously to provide necessary guidelines to the policy makers so that there is no scope of complacency and hence inaction in any quarter.

Recently, the government has announced a stimulus package for some export sectors. But, this stimulus package was not well received by the business community. In particular, the RMG sector complained about its complete exclusion from the cash incentives, though there were some policy supports for them. However, the proposed policy supports for the RMG sector in the stimulus package are somewhat ambiguous in nature. There is no detailed work plan on how these policy supports will actually be implemented. It must also be noted that reduced orders for RMG means that smaller firms and in particular subcontracting firms will be the most severely affected. These sub-sectors have not been identified for more focused government aid. The stimulus package is therefore short-sighted in nature; in contrast to the stimulus packages of other nearby Asian countries such as China and India, which have emphasized long term investments in education, health and social welfare that will eventually lead to increases in worker productivity. In addition to targeting long-term gains in competitiveness and productivity, the government must also correctly identify the sectors and sub-sectors that are currently affected and could be affected in the near future. Private sector involvement in stimulating the economy should be encouraged. In the current stimulus package, policy support to encourage investments is weak and therefore must be addressed. Most importantly, a workable plan to implement these policy supports is urgently needed so that the details can be worked out.

#### **4.2. Remittance Shock**

Remittance constitutes important shares in household incomes in Bangladesh (Table 10). Therefore any negative shock in the inflow of remittance is likely to have important negative implications for household welfare and real consumption which will have adverse effect on the overall economy. It also appears from Table 10 that poorer households are more dependent on remittances than the non-poor households, which is likely to have varying impacts on different categories of households.

**Table 10: Importance of Remittance in Households’ Income**

<b>Household Categories</b>	<b>% of Remittance in Total Households Income</b>
Landless	6.5
Marginal Farmers	6.0
Small Farmers	6.1
Large farmers	5.2
Rural Non-farm poor	6.4
Rural Non-farm non-poor	5.2
Urban Low Education	6.1
Urban High Education	4.7

Source: HIES 2005

There is a growing apprehension in the country that due to global economic crisis (also supported by recent evidence), flow of international remittance to Bangladesh may likely to slow down adversely affecting the economy and the household level welfare. In particular, Bangladeshis, working in the service industry in the US and the United Kingdom, account for at least 30 percent of the total remittance. They have been left vulnerable by the financial shock there. More importantly, the Middle East, a major source of Bangladesh's remittance, is now facing the double whammy of collapsing oil prices and global credit squeeze. Construction activities are slowing down, threatening the future of most Bangladeshi workers. With a view to explore the likely impacts of fall in inflow of remittance on Bangladesh economy a scenario of 20 percent fall in inflow of remittance is considered using the CGE model.

The macroeconomic effects of this negative shock are reported in Table 11. A negative shock in remittance appears to have a negative impact on the growth of real GDP. At the broad sectoral level it leads to a negative growth both in the agricultural and services sectors. Despite the fall in consumer price index the aggregate consumption declines. This is a result of falls in nominal returns of all factors of production. The aggregate imports fall while that of exports rise. It appears that the wage rates agricultural labor decline more than those of non-agricultural labor. Also the returns of agricultural capital fall more than those of non-agricultural capital.

**Table 11: Macroeconomic Effects of Remittance Shock (% change from the base year value)**

Variable	Fall in Remittance by 20%
Real GDP	-0.10
Agriculture	-0.32
Manufacturing	1.50
Services	-0.85
Consumer Price Index	-1.61
Consumption	-1.17
Imports	-1.26
Exports	7.41
Return to labor agri unskilled	-2.10
Return to labor agri skilled	-2.10
Return to labor non-agri unskilled	-1.70
Return to labor non-agri skilled	-1.90
Return to capital	-1.80
Return to land	-1.80
Return to water body factor	-2.30
Return to poultry factor	-2.50
Return to cattle factor	-2.30

Note: 1. Real GDP is equal to the sum of consumption, investment, government consumption plus exports less imports in real terms for all sectors in the economy.

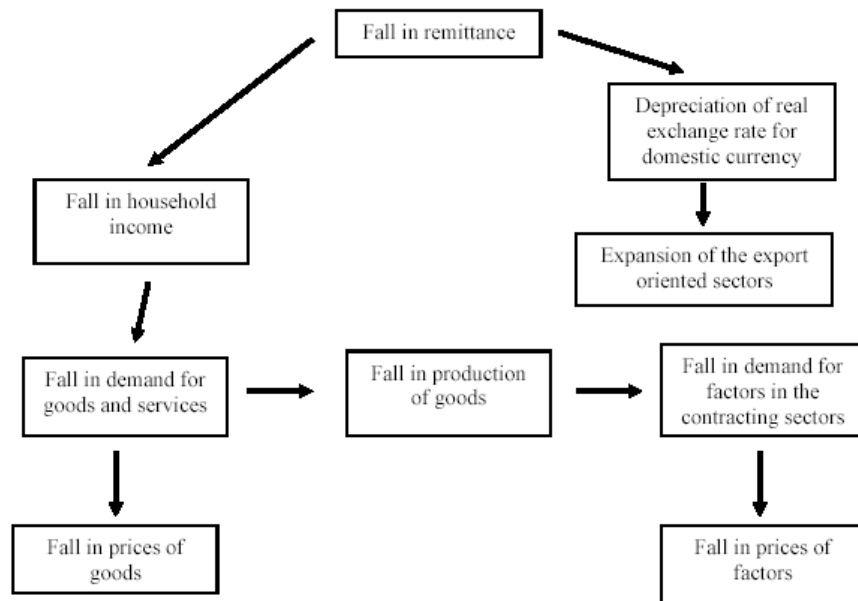
2. 2005 is the base year. Simulation outcomes are compared to base values.

Source: Authors' calculations based on simulation results.

The channels through which a remittance shock can affect sectoral prices and output are shown in Figure 9. It appears that fall in household income leads to fall in demand for most of the goods and services in the economy. This results in fall in domestic prices of all goods and services. However, because of fall in factor prices the FOB export prices fall for all export-oriented activities both in agricultural and manufacturing sectors. Also the real exchange rate depreciated. This results in some expansion of the export-oriented sectors. But,

except these export-oriented sectors, production in all other sectors decline. Also, there is a fall in demand for imports for all importing sectors.

**Figure 9: Channels through which Remittance Shock affects Sectoral Prices and Output**



The impacts on household consumption and welfare are reported in Table 12. Nominal income of all household categories fall and the poorer households, both in the rural and urban areas, experience larger fall in nominal incomes. Though the CPIs fall, the decline in nominal incomes are much larger than the fall in CPIs, which results in welfare loss and fall in real consumption for all categories of households. Because of larger importance of remittance in their total income, the poorer households suffer more than non-poor households both the rural and urban areas.

**Table 12: Remittance Shock: Impact at the household level (percentage changes from the base-run)**

Households	CPI	Nominal Income	EV	Real Consumption
Landless	-1.57	-2.91	-1.20	-1.20
Marginal farmers	-1.60	-2.87	-1.17	-1.18
Small farmers	-1.61	-2.91	-1.16	-1.17
Large farmers	-1.61	-2.82	-1.15	-1.17
Rural non-farm poor	-1.59	-2.93	-1.17	-1.18
Rural non farm non poor	-1.61	-2.67	-1.16	-1.17
Urban low education	-1.60	-2.79	-1.17	-1.18
Urban high education	-1.57	-2.62	-1.18	-1.16

Note: CPI = Consumer Prices Index; EV = Equivalent Variation  
 Source: Authors' calculations based on simulation results.

## **V. IMPORTANCE OF SOCIAL SAFETY NET PROGRAMMES IN COMBATING THE POVERTY AND VULNERABILITY IN BANGLADESH**

The diverse underlying causes of poverty in Bangladesh include vulnerability, social exclusion, and lack of assets; although the main symptom is often hunger. The extreme vulnerable poor can potentially lift themselves out of poverty with appropriate short to medium-term support. The extreme dependent poor, who are old, disabled or chronically sick, will depend on long-term social protection to survive. The children of the extreme poor, who are stunted or malnourished, are vulnerable to harassment, and have limited, or no access to education. A sharp rise in inequality would not only undermine the impact of growth, but may also threaten social cohesion and breed instability and discontent. Both poor and non-poor families are vulnerable to shocks (e.g. natural disasters, health problems) that can return them quickly into extreme poverty.

There are four major concerns that the current rate of progress in reducing extreme poverty may not be maintained: (1) slowdown in the global economy together with domestic factors; (2) growing population density is likely to force more of the poorest people to live in the most vulnerable areas; (3) climate change will exacerbate the vulnerability of poor people to environmental shocks, with the predicted increase in extreme climate events; and (4) demographic and social changes may further increase vulnerability and social exclusion.

Risks and vulnerability are mainstream problems in the lives of the average Bangladeshi and are recognized as such by governments, individuals and communities. Safety Net Programmes to address risk and vulnerability have been an integral part of the anti-poverty strategy of this and previous governments. However, with informal safety nets eroding, newer risks emerging from rapid processes of urbanization and global economic integration, and, stronger assertion of mitigation demands from a democratizing polity, a holistic re-thinking on the direction, scope and design of safety net policies in particular and social protection policy in general has become necessary. Social protection includes safety nets, various forms of social insurance, labour market policies as well as processes of self-help existing or emerging within society. Risk reduction and social protection are important not only in themselves but also because an unaddressed risk atmosphere carry negative psychological consequences for the livelihood initiatives of the poor and for community efforts at social cohesion.

Effective policy initiative on a holistic approach to social protection will require a sharper profiling of risks, old and new. These include disasters, anticipated risks such as *monga* and seasonal poverty, public health risks associated with the urbanization process, social ills such as dowry, erosion of family-based safety nets and emergence of new vulnerable groups such as the elderly and the disabled, and, the uneven globalization process which may give rise to new categories of poor whether in terms of worker displacement, livelihood losses or victims of environmental disasters.

An important corollary of moving towards a comprehensive approach on safety nets will be the need to streamline the institutional strategy on implementation. The potential of local government bodies, particularly the Union Parishad, to coordinate a streamlined institutional strategy needs to be actively explored.



Social Safety Net Programmes (SSNPs) address basic needs of the people namely food, shelter, education and health. The prime programs covered under SSNPs are: Food for Works (FFW), Vulnerable Group Development (VGD), Vulnerable Group Feeding (VGF), old-age allowances, allowances for retarded people, allowances for widow and distressed women, grants for orphanages. There are also micro-credit programmes, allowances for freedom fighters and so on. Distressed people particularly women, children and disabled persons have been given priority under Social Safety Net. The SSNPs have been broadly categorized into two: Social Protection and Social Empowerment. They are implemented through both non-development budget and development budget. Social protection encompasses: cash transfer allowances; cash transfer (special), food security, new funds for programs. Social empowerment includes: stipends, housing and rehabilitation, micro-credit, miscellaneous funds, development programs.

## **VI. AN OVERVIEW OF THE EXISTING FORMAL AND INFORMAL SAFETY NET PROGRAMMES IN BANGLADESH**

The economy of Bangladesh has been growing at a reasonable growth rate, but safety nets are necessary for those who are still below the poverty line. The challenge lies in expanding coverage of the extreme poor and reducing leakages. To expand coverage to those who need the most, Bangladesh has to increase the efficiency while reducing the cost of its safety net programmes. For instance, food based safety net programs have evolved to replace the public food distribution system and many were funded by food aid donors.

The following sections provide an overview of the existing formal and informal safety net programmes in Bangladesh. A clear understanding of these safety net programmes is very important in order to take necessary steps in the era of increased vulnerability due to the ongoing global financial crisis.

### ***6.1. Types of SSNPS***

The Government of Bangladesh maintains a variety of social safety net programmes designed to address mainly transient food insecurity stemming from shocks. Some of the most prominent Government of Bangladesh safety net programmes include Vulnerable Group Feeding (VGF), Open Market Sales (OMS), Cash for Work (CFW), Food for Work (FFW) Vulnerable Group Development (VGD), Gratuitous Relief (GR) and very recently the 100 days employment guarantee scheme. World Food Programme (WFP) works with UNICEF and FAO to implement the nutrition intervention activities through a coordinated UN approach.

The government of Bangladesh views poverty from two broad perspectives – income poverty and human poverty. The government identifies direct and indirect safety net programmes to address these two types of poverty, where the direct measures (income/employment generating programme) are considered as those that are targeted towards the poor, and indirect measures (human development programme) are growth oriented and hence expected to leave indirect effects on poverty reduction. Examples of indirect or growth oriented measures cover mostly infrastructural development and rehabilitation programmes. However there are also safety net programmes that merge the two concepts of direct and indirect measures. For example, a direct measure like Food for Work

programme that is targeted towards the poor is also used to construct infrastructural services, falling in the category of indirect measure. Table 13 presents the names and examples of major types of SSNPs in Bangladesh.

**Table 13: The Main Type of Safety Net Programs in Bangladesh**

Type	Program Examples
Cash transfers	Old Age Allowance Widowed and Distressed Women Allowance Disabled Allowance
Conditional cash transfers	Primary Education Stipend Program (formerly Food-for-Education) Stipends for Female Secondary Students
Public works or training based cash or in kind transfer	Rural Maintenance Program Food-for-Work Vulnerable Group Development (VGD) Employment Generation Programme (EGP)
Emergency or Seasonal Relief	Vulnerable Group Feeding (VGF) Gratuitous Relief (GR) Test Relief (TR) Open Market Sale (OMS)

### 6.1.1. Cash Transfer

Among these four major types of social safety net programs, Cash Transfer includes Old Age Allowance, Widowed and Distressed Women Allowance and Disabled Allowance. Now the main objective of Old age Allowance is to provide old age cash allowances to the poor, and the whole programme is financed by the Government of Bangladesh under the department of Social Services. Old age Allowance is given to those who are at least 65 years of age, income not more than Tk. 2000 per year, and not able to work in the formal sector. Based upon the category of the union, number of beneficiaries is identified where 50 percent are men and 50 percent are women. The monthly rate of Old Age Allowance increased from Tk. 250 in 2008-09 to Tk. 300 in 2009-10 and the coverage of the beneficiaries has also increased from 20 lakh to 22.50 lakh during the same period.

Another programme under Cash Transfer is Widowed and Distressed Women Allowance where its main objective is to minimize the problems of the women at distress through cash transfers. This programme is financed by the Government of Bangladesh under the ministry of Women and Children's Affairs. The benefits go to those women who are widowed, deserted or destitute. Similarly, based on the category of the union, the number of beneficiary is identified. The allowance for the destitute women is Tk. 300 per person per month. Allowance for the Distressed Disabled Persons (ADDP) was introduced for the first time in 2005-06. Each beneficiary receives Tk. 200 per month. The programme is run by the Ministry of Social Welfare, Government of Bangladesh.

### 6.1.2. Conditional cash transfer

Conditional cash transfer is one of the major types of social safety net programmes in Bangladesh including Primary Education Stipend Programme and Stipends for Female Secondary Students. The main objectives of the Primary Education Stipend Program are to increase the number of children into primary school from poor family, increase attendance to

and reducing drop out from the primary school, increase the rate of completion of the primary education cycle, control child labour and reduce poverty and increase the quality of primary education. This programme was initiated by the Department of Primary Education, Ministry of Education, Government of Bangladesh (GOB) in July 2002. Now it is financed by the government of Bangladesh under the department of Primary Education, Ministry of Education. Here the target group is destitute woman headed family where destitute means widowed, separated from husband and divorced, principal occupation of the household head is day-labour, family of low income professionals, such as: fishing, pottery, blacksmithing, weaving, and cobbling, landless or households that own 0.50 acres of land (marginal or share-cropper). On the basis of meeting attendance and examination criteria, this benefit is equivalent to Tk. 100 for one student family and Tk. 125 for more than one student family.

Stipends for Female Secondary Students is another programme of Conditional Cash Transfer. The Government of Bangladesh initiated a nation-wide stipend programme for girls in secondary school (grades 6-10) in all 460 upazilas (sub-districts) of the country in 1994. The purpose of this programme was to increase the number of students in the secondary school, increase their prospect as employees, help them to be self sufficient and control under age marriage. The targeting group is all unmarried girl students studying in recognized institutions at secondary level. On the basis of meeting attendance, examination and marriage criteria, and stipend is given like as Tk. 300 for class six, 360 for class seven, 420 for class eight and 720 for both class nine and ten. Apart from this free tuition, book allowance and examination fees are also included under this stipend program. At present, girls in higher secondary grades are also covered by this project. This whole programme is financed by the government of Bangladesh under the Ministry of Education, Directorate of Secondary and Higher education, USAID, Asia Foundation, World Bank and ADB.

### **6.1.3. Public works or training based cash or in kind transfer**

Public works or training based cash or in kind transfer is the third most important type of social safety net in Bangladesh containing Rural Maintenance Program (RMP), Food-for-Work, and Vulnerable Group Development (VGD). In order to increase the employment of women and to maintain rural infrastructure, Rural Maintenance Program gives the priority on some type of household say, less than 30 decimals of land, Destitute Family circumstances, female heads of households of 18-35 years of age, widowed or separated at least one year, with priority to those with more dependents, no other income and not be participating in other targeted programs. From 1983 to September 2006, CARE ran this project. In 2008 the Government of Bangladesh officially indicated it would continue to run RMP as a national government-funded program. So now this is a public work program giving 51 taka per day. Under the RMP programme, women beneficiaries are employed for four years. A woman works for three years and three months, and for the remaining nine months she receives skill training. Financing is managed by the government of Bangladesh under the department of Local Government and Engineering, CARE-Bangladesh, EC, CIDA (Canadian International Development Agency), Union Parishads.

The main objective of Food for Work programme is employment generation for the poor, mainly in the dry season through infrastructure creation and maintenance, which means developing and maintaining rural infrastructure. Those who are functionally landless or lack of productive assets or generally women headed household where women is widowed, deserted and destitute or day labour or temporary worker or income less than Tk. 300 per

month are the targeting group under this programme. There is no specific entitlement in case of giving how much. Generally food is transferred by the public food distribution system. There are two components under this program say, Food for Work (FFW) and Cash for Work (CFW). The whole programme is financed by the government of Bangladesh under the department of Local Government Engineering department, department of Social Services and other department, ADB (Asian Development Bank), WFP (World Food Program).

In case of increasing the marketable efficiency of women through training, motivating savings for initial capital accumulation and providing scope for availing credit and building social awareness on disaster management and nutrition through training in groups, Vulnerable Group Development (VGD) plays an important role containing three components say, Food Security Vulnerable Group Development (FSVGD) (food only), Income Generating Vulnerable Group Development (IGVGD) (food and cash)- these two are income generating programme, Union Parishad Vulnerable Group Development (UPVGD). Here the targeting groups are households with not more than 15 acres of land, monthly household income less than Tk. 300; dependent upon seasonal wage employment, women of reproductive (18-49) age, day labour or temporary worker, lack of productive assets. This programme is maintained by the government of Bangladesh under the Ministry of Women and Children Affairs, Directorate of Relief and Rehabilitations; WFP, EC, Canada, Australia. Beneficiaries of this programme receive 30 KG of wheat per month and 150 hours of skill development training. Beneficiaries can access BRAC's microfinance programme after 24 months.

In the fiscal year 2008-09, Tk 2,000 crore was allocated to introduce a "100-Days employment- Generation Program" (EGP) where 20 lakh labourers were rolled and totally Tk 920 crore was spent implementing the first phase of the programme. Though the programme benefited the poor it could not contribute to the improvement of rural infrastructure, that's why the second phase of the programme was cancelled and a new programme has been designed allocating Tk 1120 crore while Tk 56 crore for administrative cost. Around 11.20 lakh "Hardcore Poor" are going to be brought under this newly devised Programme starting on October 15, 2009 to help the poor in lean seasons and improve rural infrastructure. As a pilot project initially, the programme will be implemented for one and a half months in 124 upazilas of five munga-prone northern districts and 11 Aila-hit coastal districts on the basis of two phases -- first during September-November and the second in March-April. In around five months of these two seasons, more poor people become unemployed. The government will execute the EGP in March-April next year.

The Ministry of Food and Disaster Management has already finalized the EGP policy. According to the policy, unemployed and unskilled poor of ages between 18 and 60 and landless and marginal farmers will be eligible for the programme but the marginal farmers and the victims of river erosion, coastal surges and munga will be the main beneficiaries of the programme where at least one-third of the total beneficiaries should be female. For a seven-hour work day, each person under the programme will get Tk 100 for a period of 30 days employing in canal digging, dam and road construction, making the premises of educational and religious institutes and cyclone shelter higher, preparing organic fertiliser or in other projects recommended by the ministries concerned for rural development. At least 5.6 lakh beneficiaries will be selected under the programme from 80 upazilas of the munga-prone northern districts and disaster-prone coastal areas where more than 40 percent people are poor. Another 3.36 lakh people will be selected from 253 upazilas having 21 to 39 percent poor and 2.24 lakh from the rest 147 upazilas with 1 to 20 percent poor people.

#### **6.1.4. Emergency or Seasonal Relief**

Emergency or Seasonal Relief includes Vulnerable Group Feeding (VGF), Gratuitous Relief (GR), and Test Relief (TR) where the main objective of Vulnerable Group Feeding (VGF) is to provide calamity related emergency needs, short term relief to disaster victims in terms of food and basic necessities. Though no specific entitlement is required here generally a location is targeted based on the occurrence of natural disaster and food is being transferred by the public food distribution system. Financial sector is maintained by the government of Bangladesh under the Ministry of Food and Disaster Management, some other development partners.

Gratuitous Relief (GR) provides in calamity related emergency needs, short term relief to disaster victims – in terms of food and basic necessities. There is no specific entitlement and no precise method in case of giving relief. Generally a location is targeted based on the occurrence of natural disaster and then govt. NGOs and some people personally help the victims of natural disaster prone area as they wish. This programme is financed by the government of Bangladesh under the Ministry of Food and Disaster Management and some Development Partners.

Test Relief (TR) is one of emergency and seasonal reliefs that is used to increase the employment for the poor in the rainy season, developing and maintaining rural infrastructure. Generally a location is targeted to give such type of relief where 5-6 kg. of wheat is given per day of work and food transfer is maintained by the public food distribution system. The entire programme is financed by the government of Bangladesh under the Ministry of Food and Disaster Management, and some development partners.

The government of Bangladesh also has country wide Open Market Sale (OMS) aiming to stabilize food prices that appear to have marked unreasonable rises. Depending on the emergency of the situation the government takes decision about how much rice will be sold through the OMS programme at what rate initially to cool down the wayward market. Generally one person is entitled to buy maximum 5-kilogram of rice.

#### **6.1.5. Other SSNPs in Bangladesh**

Government introduced Fund for Housing for the Distressed Programme to solve the housing problems of the homeless, poor and low income people. Rural poor, low income people, homeless families and households affected by natural disasters and fires are provided with housing loans to construct their houses through partnership agreements with NGOs, institutions and local government. Loan is given up to Tk. 20,000 where cash is being transferred by the public sector banks.

Fund for Mitigation of Risk of Natural Disaster is a programme that is taken to help the poor people targeting a location based on the occurrence of natural disaster in order to mitigate suffering of people affected by natural disaster and provide loans to set up small businesses. Range of loan is between Tk. 5,000 to Tk. 25,000 for 1 to 3 years with nominal 5 percent service charge and cash is being transferred by the public sector banks. This programme is run by the government of Bangladesh under the Ministry of Food and Disaster Management.

In order to assist the poor freedom fighters through cash transfers, Ministry of Freedom Fighters Affairs of the government of Bangladesh have continued a program named “Honorarium Program for Insolvent Freedom Fighters” providing Tk. 300 per month. Verifying in cross section of references those who are disabled or partially disabled or landless or unemployed or none in the family to depend upon and if income is less than Tk. 6000 per year, beneficiaries are selected.

Under the ministry of Women and children’s Affairs the government of Bangladesh has started “Fund for Rehabilitation of Acid Burnt Women and the Physically Handicapped” in order to assist acid burnt women and disabled through provision of credit and skills training, creating opportunities for IGA and raising social awareness. Generally based upon case Installation of facility is required providing training, credit etc.

### 6.1.6. Informal Social Safety Nets

In the case of social safety net programme, there is also an informal sector where some people help the poor people only from their personal willingness. Religious inspiration is also another factor to do so. Such informal social safety nets are as follows:

1. Transferring money and other necessary goods, say, food, cloth etc. to the poor people from the rich people.
2. “Jakat” is a type of informal social safety net programme.
3. Various orphan houses those are run by the donation of different people of the society.
4. Some people help poor children and old men/women by giving them word knowledge or primary education.
5. Some doctors give free treatment to their own area people.
6. Some people help their poor relatives or neighbours by giving them food or anything that is needed.

### 6.2. Rise in the Allocation for SSNPs in Recent years

Table 14 shows the response of government through PFDS (Public Food Distribution System) to cope up with the food price hike.

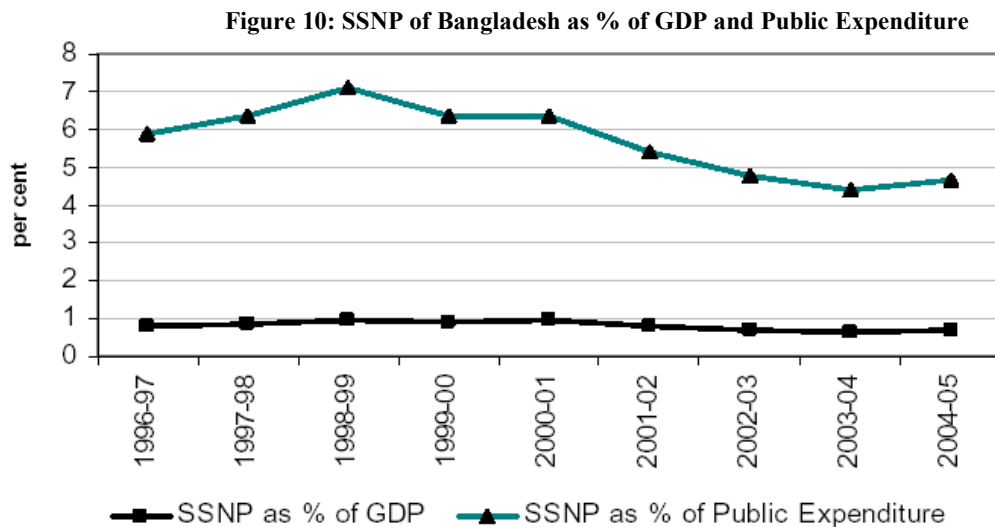
**Table 14: Increased allocation under Food Security Programmes in Bangladesh (billion tk)**

	2007-08	2008-09	% increase
Subsidy for Open Market Sales (OMS)	18.49	26.75	44.7
Vulnerable Group Development (VGD)	7.21	8.37	16
Vulnerable Group Feeding (VGF)	8.55	7.08	-17.2
Test Relief (TR)- Food	4.11	6.31	53.6
Gratuitous Relief (GR) for Food	1.74	2.01	15.8
Food Assistance in CTG-Hill Tracts Area	2.04	2.38	16.6
Food For Work (FFW)	5.03	15.78	213.6
<b>Total</b>	<b>47.17</b>	<b>68.68</b>	<b>45.6</b>
As % of Total Budget	5.50%	6.90%	
As % of GDP	0.90%	1.10%	

**Source:** “Food and Energy Price Increase and Policy Options: The Case of Bangladesh”, Carlo del Ninno, World Bank (HDNSP)

From Table 3 it is seen that as a response to the price hike, compared to the fiscal year 2007-08 during 2008-09 the government has increased the expenditure on all food security programmes under PFDS except VGF. Among the six programmes those enjoyed the increased expenditure, Food For Work (FFW) is on the top of the list with 213.6 percent increase which is followed by Test relief (TR) – Food (53.6 percent increase), Open Market Sales (44.7 percent increase), Food Assistance in CTG-Hill Tracts Area (16.6 percent increase), Vulnerable Group Development (16 percent increase) and Test Relief (TR)- Food (15.8 percent increase). The total government expenditure on food security programs under PFDS is increased from 47.17 to 68.68 billion tk. during the same period.

In Bangladesh, in monetary terms, extent of safety net programmes is gradually increasing over the years. However, in terms of share of public expenditure spending on safety nets has been falling since 1998-99, against the increasing number of people below the poverty line (Figure 10). On average, during 1996-97 and 2004-05, Bangladesh has been spending on SSNPs to the tune of 0.8 per cent of the GDP and 5.7 per cent of the total public expenditure.



Source: Based on World Bank (2006)

However, recent figures suggest some rise in shares. During FY2007 and FY2008, higher targets have been fixed for providing social security of the poor. According to the annual targets, about Tk 5700 crore was allocated in the budget for 2006-07 (1.4 per cent of GDP and 9.3 per cent of total public expenditure) and about Tk 8400 crore has been allocated in the budget for 2007-08 (1.8 per cent of GDP and 12.1 per cent of total public expenditure) and 2.5 per cent of GDP in the budget for 2009-10.

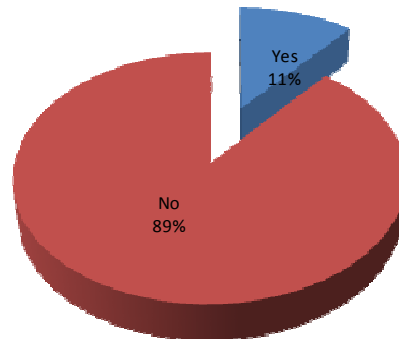
## VII. WHO RECEIVE SAFETY NET BENEFITS IN BANGLADESH

Household Income and Expenditure Survey of 2005 provides some useful information on the household who are covered by different social safety net programmes in Bangladesh.

Figure 11 suggests that 11 percent of the surveyed households in the HIES 2005 were covered by any social safety net programmes (SSNPs). However, according to the HIES

2005, the head-count poverty in Bangladesh was as high as 40 percent. This suggests that majority of the poor people are left out of the SSNPs in Bangladesh.

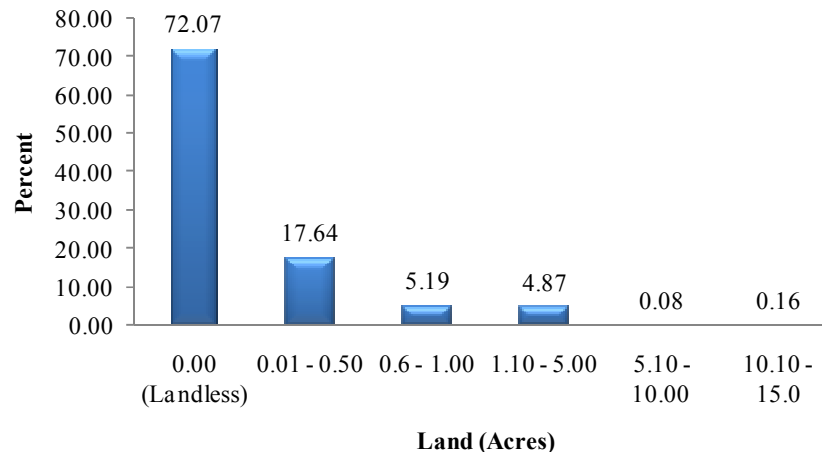
**Figure 11: Percent of Household Receiving SSNPs**



Source: HIES (2005)

SSNPs are usually taken by the government to help exclusively the vulnerable group of the society. These types of programmes target the people who are poor from the perspective of all types of definition of poverty. To examine whether these programmes actually went to the households who were in need we can see the distribution of benefitted households. Figure 12 shows that, 72.07 percent of the households, who received any sort of SSNPs, were landless households. Another 17.64 per cent of benefitted households were marginal farmers who had land up to 0.5 acre. This suggests that at least 90 percent of the recipients of the SSNPs were poor. This indicates to the fact the SSNPs in Bangladesh have been well targeted.

**Figure 12: Who receive the SSNPs most**



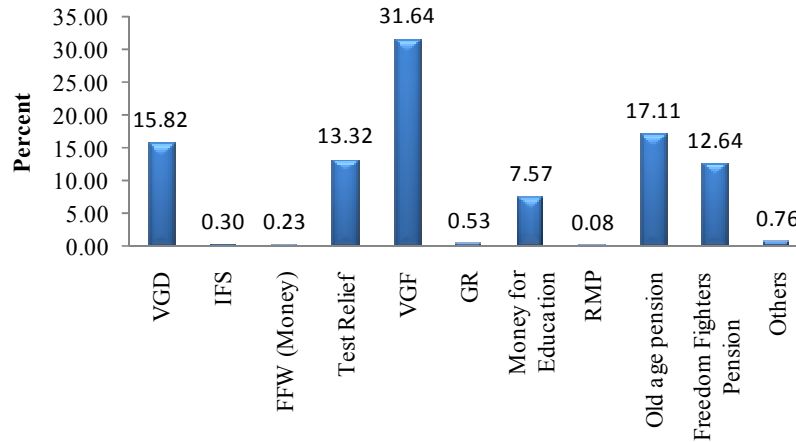
Source: HIES (2005)

As has been mentioned above there are many SSNPs in Bangladesh. Figure 13 indicates that among all these SSNPs the coverage of the Vulnerable Group Feeding (VGF) is the highest as 31.6 percent households received benefit from this programme. The next prominent programme is the Old Age Pension Scheme as more than 17 percent households received money from this programme. Vulnerable Group Development (VGD) is in the third position. 13 percent and 12.5 percent households are benefitted from Test Relief (TR) and Freedom



Fighters Pension respectfully. Apart from these, all other Social Safety nets have rather very low coverage.

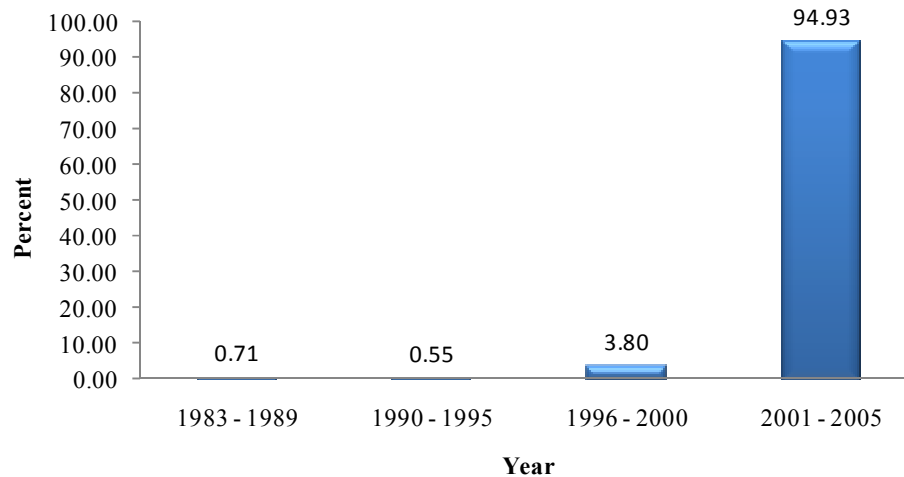
**Figure 13: Coverage of different SSNPs**



Source: HIES (2005)

The HIES (2005) suggests that 95 percent of the households, who received any form of SSNP, were enlisted in those programmes during 2001 to 2005 (Figure 14). This suggests that the coverage of the SSNPs was very low during 1980s and 1990s.

**Figure 14: Households enlisted in the SSNPs in different years**



Source: HIES (2005)

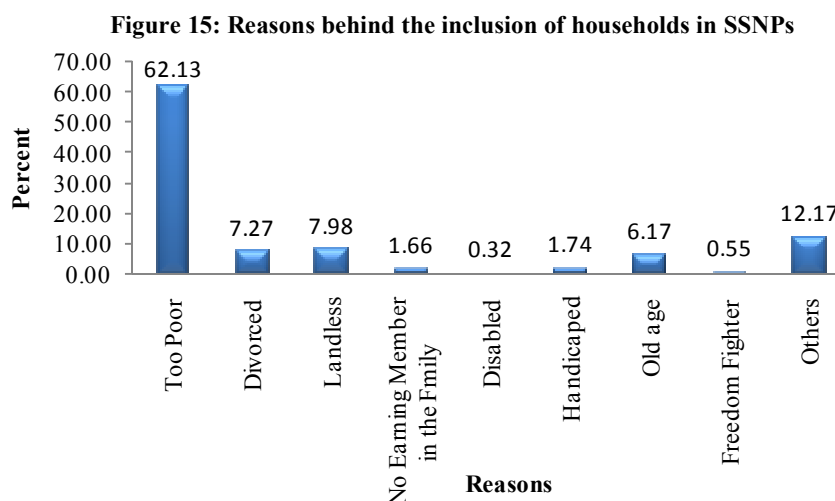
Table 15 shows that around 50 percent of the households are enlisted in the SSNPs during July-September. This suggests that the need for SSNPs is most acute during these months in a year. Enlisting majority of the households in these months indicates agricultural seasonal unemployment during these months.

**Table 15: Households enlisted in the SSNPs in different months**

Month	Percent of household enlisted
January	16.54
February	3.46
March	2.85
April	2.62
May	2.54
June	7.54
July	12.15
August	12.54
September	24.92
October	8.77
November	3.77
December	2.31
Total	100.00

Source: HIES (2005)

With about 40 per cent of population living below the poverty line and an increasing number of populations being added below poverty line income, the social safety net programmes in Bangladesh are more than a necessary element in fighting poverty. Figure 15 indicates that 62 percent households were enlisted under this programme only because of their poverty.



Source: HIES (2005)

Table 16 shows that 23 percent of the households, who received any of the SSNPs, received taka between 401 and 600 as cash transfers. Another 40 percent households received taka between 101 and 400. About 15 percent households, however, received taka more than 1500. Considering the poverty line income in Bangladesh, this suggests that the amounts of taka, received by most of the households were considerably low.<sup>3</sup>

<sup>3</sup> In 2005, the lower poverty line income in rural Bangladesh was TK 665 per person per month and the upper poverty line income was taka 963 per person per month (HIES, 2005).

**Table 16: Households Received Amount as Transfer in Cash**

Taka	Percent
1-100	3.34
101-200	19.53
201-400	20.44
401-600	23.02
601-1000	11.17
1001-1500	7.90
1501+	14.59

Source: HIES (2005)

Table 17 suggests that almost 25.5 percent of the households, who benefitted from any of the SSNPs, received 21-30 kg of rice per month.

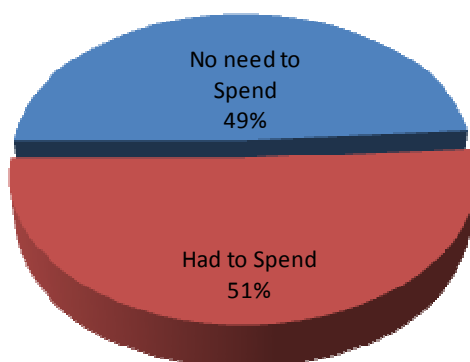
**Table 17: Households received amount as transfer in kind**

Rice (Kg)	Percent
1 - 10	22.74
11 - 20	15.04
21 - 30	25.49
31 - 40	7.35
41 - 50	7.70
51 +	21.68
Total	100.00

Source: HIES (2005)

It is also interesting to see that almost 51 of the beneficiary households had to incur some costs to receive some benefits from such programmes (Figure 16). Table 18 shows that almost 93 percent of the households had to incur amount between 1 and 100 taka.

**Figure 16: Households to spend for the SSNPs**



Source: HIES (2005)

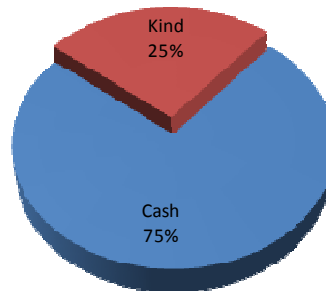
**Table 18: Distribution of household according to spending to attend in the program**

Taka	Percent
1 - 100	92.61
101 - 200	5.50
201 - 300	1.26
301 - 400	0.31
Total	100.00

Source: HIES (2005)

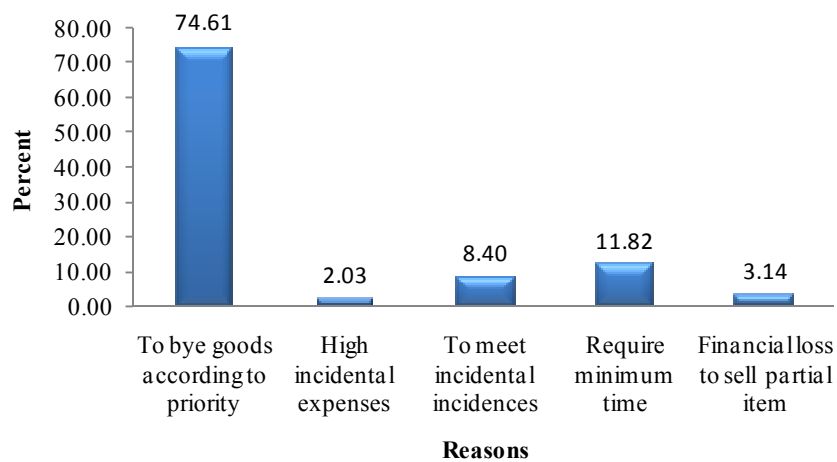
Figure 17 shows that almost 75 percent of the households prefer cash transfer over transfer in kind. Figure 18 indicates that the ‘scopes of buying goods according to priority’ is the dominant reason behind such a preference. The SSNPs in Bangladesh, in general, have been useful as 56.8 percent of the beneficiaries termed it as ‘very helpful’ and another 33.8 percent termed it as ‘useful’ (Figure 19).

**Figure 17: Preference of households between cash and kind transfer**



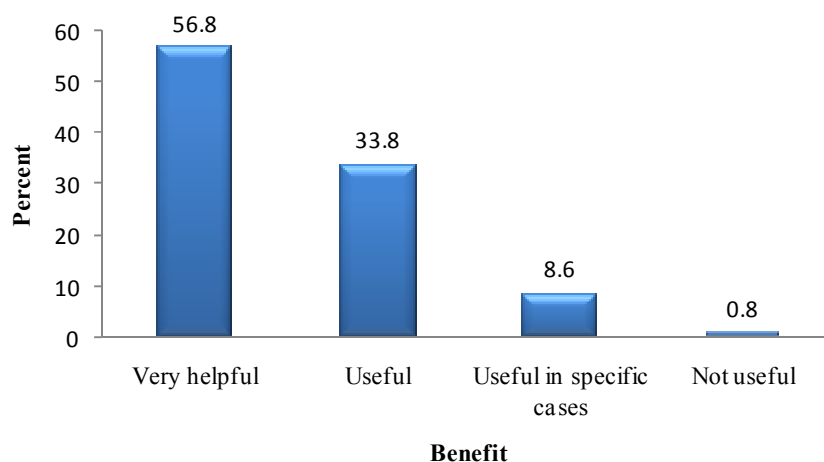
Source: HIES (2005)

**Figure 18: Reasons behind the Preference of Cash over kind**



Source: HIES (2005)

**Figure 19: Useful of the SSNPs**



Source: HIES (2005)

### **VIII. POLICY DOCUMENTS OF GOVERNMENT ON SSNPs**

The GoB (Government of Bangladesh), in almost all of its long-term plans (Five year plans), put considerable emphasis on poverty alleviation as a key area of concern. In the Fifth Five Year Plan (1997-2002), the government promised to ensure people's participation for self-reliance, poverty-reduction and sustainable development (GoB, 1998). These documents, particularly the last two Five Year Plans (1990-1995; 1997-2002) and also the abandoned 20-year Perspective Plan (PP) (1990-2010), aimed to reduce poverty by ensuring better access for the rural poor to the means of production through their organizations for productive activities, development of agriculture and infrastructures. The Fifth Five Year Plan proposed to launch programmes under rural development sector encompassing development of physical infrastructure, irrigation, drainage, flood control and employment-generating programmes for the rural poor.

The principal policy document outlining Bangladesh's approach to poverty reduction is the Bangladesh Poverty Reduction Strategy Paper (PRSP) which was finalized in October 2005. The document, entitled Bangladesh "Unlocking the Potential"- includes various concerns for poverty reduction and economic growth as well as in specific sectors such as agriculture, rural development and the labour market. The PRSP which spans the period from 2005-2008 is a document that begins with an analysis of the dimensions and principal determinants of poverty in Bangladesh as well as trends in income poverty, human poverty and inequality. The PRSP introduces four strategic building blocks for reducing poverty as well as four supportive strategies all of which are key to effective achievement of the goals and objectives in the four strategic blocks of which 'devising effective safety nets and targeted programmes' is a critical strategic bloc.

**Table 19: Bangladesh PRSP 2005-2008: Strategic Blocks and Supporting Strategies**

<b>Strategic Blocks</b>	<b>Supporting Strategies</b>
Enhancing pro-poor growth	Ensuring participation, social inclusion and empowerment; Promoting good governance; Providing service delivery; and Caring for the environment and promoting sustainable development
Boosting critical sectors for pro-poor economic growth	
Devising Effective Safety Nets and Targeted Programs	
Ensuring Social/Human Development	

Source: Government of Bangladesh, 2005. Bangladesh. Unlocking the Potential. National Strategy for Accelerated Poverty Reduction

In the second Poverty Reduction Strategy Paper (PRSP) “Moving Ahead: National Strategy for Accelerated Poverty Reduction for 2008/09-2010/2011” the main goals are stated as follows: (i) safety net interventions will achieve the protection of all types of poor people and the prevention of chronic poverty, transient poverty and fall into poverty. It will target the extreme poor first. (ii) the government will encourage NGOs, CBOs and the private sector to augment their role and contributions to increase the social safety net. (iii) Attempts will be made to increase coverage through increased budget allocation each year.

The second PRSP also called for a national social protection policy which will be formulated to give guidelines for resource allocation each year in terms of percentage of GDP and public and private expenditure. It is also highlighted that all the programmes undertaken under the social safety net will continue. During the next 3 years (2009 to 2011) Old Age Allowances, Allowance for Insolvent Persons with Disabilities, Stipend Programme for the Student with Disabilities, Allowance for Widows and Distressed Women, Maternity Allowance for Poor Mothers, and small ethnic groups will be expanded in terms of coverage. Monga affected people will get top priority under the social safety net programme. A separate programme will be undertaken to identify the hard to reach areas and groups and to bring them under SSNP. All small programmes will be brought under one umbrella for smooth implementation. Programming targets will be made consistent with the objectives of the programmes. It is important to set rules for avoiding duplication of programmes with one group of households. Targets could be identified on the basis of the income of the households and assessing the condition of the individuals. Under any safety net programme the minimum allowance may be raised to Tk. 400 with the provision of annual revision to keep pace with inflation. There are a good number of widowed women in Bangladesh without children to support them. A programme may be undertaken under SSNP to protect them. A registration system may be introduced for the domestic workers. There may be a training course for them on using electronic equipment, food preparation and household management which would increase their wages. Bonds may be floated for mobilizing funds locally and internationally to finance SSNPs. An allowance programme cannot be a permanent or effective solution for Freedom Fighters. Vocational training programmes for the Freedom Fighters and their family members may be included in the SSNPs. For self-employment support to Freedom Fighters and their dependants there may be separate allocation under the micro-credit programmes to ensure access to credit. There may be free medical services for the Freedom Fighters in the CMHs and/or other medical hospitals. Periodic review of the SSNPs may be institutionalised to assess the effectiveness of major programmes and to reset the priority of the SSNPs. Finally, the western region of the country, which has relatively higher incidence of poverty, will receive higher priority in all SSNPs.

## **IX. EXPANSION AND REDESIGNING OF SOCIAL SAFETY NET PROGRAMMES IN THE ERA OF GLOBAL FINANCIAL CRISIS**

In the era of global financial crisis there is a need for expansion and redesigning of the the SSNPs in Bangladesh. It appears that in Bangladesh, targeting criteria of the SSNPs is good at targeting the poorest. Also the SSNPs are perceived by the beneficiaries as helpful especially the poorest. However, evidences suggest that there is relatively high leakage from food based programs and despite popular assumptions they are not better targeted. It is also important to note that the programmes are very rural focused but the country is getting rapidly urbanized with increasing proportion of the poor living in urban areas. Programmes have significant administrative leakages. Too many programmes are run by too many Government departments and thus a large administrative overhead which can be reduced and used to provide benefits. There are also too many layers of decision making in selection of beneficiaries

There are a number of weaknesses in Bangladesh safety nets programmes (PRSP, 2005). These are:

1. **Lack of an Integrated National Policy:** There is no integrated national policy for social protection and safety net programmes based on a comprehensive and updated risk and vulnerability mapping. Often, the extent, nature and mechanisms of many safety net programmes change with a change of government. There is also lack of integration and coordination among various safety net programmes and providers. A number of ministries are involved in implementing and monitoring safety net programmes. Many are funded with donor money. Budgetary provisions are ad-hoc and given as block allocations.
2. **Limited Coverage of Safety Net Programmes:** Though SNPs have played a role in mitigating poverty, their coverage remains limited given the magnitude of extreme poverty that exists in the country. A BIDS survey reveals that SNPs cover about 10 million people, and consequently fall short of the needs of 23.9 million people who belong to the “extreme poor” category. Furthermore, SNPs cover mainly the rural poor, whereas the nature of urban poverty is more severe than rural poverty in certain respects. Recently, GOB has started a new safety net programme, namely the Urban Social Service (USS) for the urban poor. Through this programme, the slum and pavement dwellers are provided with collateral-free small credit and skill training. But the coverage of this programme is extremely limited.
3. **Missing Poor and New Vulnerabilities:** Current social safety-nets also lack coverage of specific socially excluded and marginalised groups. Some outcast groups in Bangladesh like cobblers, sweepers and fishermen are living in extreme poverty for years together. Tea plantation workers are another group found to live for years in extreme poverty. In Bangladesh, farmers, particularly the small farmers, are exposed to large-scale vulnerability due to various natural uncertainties, price fluctuation and low price of output. This may be exacerbated by the globalization process. If prices suddenly fall due to large-scale imports, there are no means to protect these farmers. There is also a lack of understanding of the poverty implications arising from globalization-induced shocks and their gender dimensions for the garment sector.
4. **Insensitivity to Geographic and Agro-Ecology Specific Poverty:** The nature of extreme poverty varies with variations in geography and agro-ecology. Separate safety net

programmes are needed to alleviate poverty arising from area specific problems like river erosion, salinity and arsenic pollution. Geographic targeting taking these characteristics into account is still lacking.

5. Inadequacy of the Amount of Transfers: The “widowed and distressed women’s” allowance/Inadequacy of the amount of allowance/grain/wages/loans provided under the safety net programmes is one of the main weaknesses of these programmes. Almost all beneficiaries of the Old Age Pension Scheme reported that during old age, health care is a basic need and for this a more substantial amount of money is required every month. About 97 percent of the beneficiaries of those widowed and distressed women’s allowance reported the amount of allowance as inadequate. The dissatisfaction related to micro-credit disbursements is also universal.
6. Inadequacies of Poverty Criterion: For all the safety net programmes, the poor have been identified mainly on the basis of land ownership and income criteria. It is possible to identify the poor with respect to various socio-economic characteristics such as land ownership, income, housing condition, food security and consumption expenditure. The use of these characteristics should be applied, based upon the particular focus of the safety net programme subject to the provision that they should not be too complex to understand and apply.
7. Inadequate understanding of the Gender Dimension of Poverty: In the existing safety net programmes, the gender dimension of poverty has been addressed inadequately. All the safety net programmes undertaken for women addressed their income poverty whereas social and psychological poverty is pervasive among women in Bangladesh. Human poverty, particularly health poverty, is more acute in case of women but there is no safety net programme addressing the health insecurity of poor women. Access to education and skill training is highly restricted to poor women but no women-focused safety net programme was undertaken to provide education to girl children of poor families.
8. Gender specific risks and insecurity in the labour market are also by-passed by the existing safety net programmes. Poor women-workers face specific risks and insecurity. Risk of violence is also rampant for them in the workplace. Safety net programmes addressing these risks and insecurities are inadequate both in number and magnitude. Only recently, the GOB has undertaken a safety net programme to provide protection to the victims of acid throwing. But the size of this programme is as yet quite small. Victims are also in great need of counselling and health services as well as marketing services to sell what they produce through self-employment. Therefore, together with providing small credit, health and counselling services an outlet for marketing their products should also be provided to help their proper rehabilitation.
9. Targeting and leakages: Despite the successes of SSNP in Bangladesh, there have been causes of concern on several counts. There have been various administrative problems obstructing the smooth running of the programmes. Targeting has been off the mark in some of the programmes. In some cases, leakages have been more of a problem than targeting. Also in-kind transfers such as food may have depressed prices somewhat, and this could be a disincentive to small producers.
10. In FFE, as indicated earlier, the beneficiaries were poorer than non-beneficiaries but it did not clearly show that the former were actually drawn from the poor. The old age and



widow allowance beneficiaries appeared to be well targeted. So were the VGD programme participants. In FFW, the leakages have been estimated at 26 percent. But the main mechanism seems to be padding of the work done and falsification of pre-work and post-work estimates of earthwork. Other estimates put leakages at 34-59 percent for VGD and 30-65 percent for VGF. These leakages occurred due to administrative lapses and high administrative costs. More rigorous evaluation of these programmes would help to clarify the actual scale of the leakage and other implementation problems and where remedial measures can be best pursued.

PRSP (2005-2008) identified a number of areas for the development of effective SSNPs. Given that the expenditure on safety net programmes is less than 1 percent of GDP, an increase in the allocation for social assistance programmes is warranted. However, it is difficult to be prescriptive about how big this should be. Safety net programmes have an important role to play in Bangladesh. The challenge is to base programme choice on an effective and updated risk and vulnerability mapping and ensure that chosen programmes serve both to limit total cost and reduce opportunity cost. Based on the experiences of other countries in the implementation of safety/social assistance programmes, a number of steps can be taken in Bangladesh in the area of SSN:

First, a coherent and integrated national social protection policy based on a comprehensive mapping of existing and emerging vulnerabilities needs to be developed. This policy will have to decide upon what to include and what to exclude for public action. Particularly, the variety of social assistance and the social insurance programmes that may be undertaken over phases needs to be clarified.

Second, coverage of existing programmes which have proven track records can be expanded. For example, the Rural Maintenance Programme (RMP) needs to be continued. The old age pension scheme may also be expanded in phases.

Third, the labour laws of the country that already have provisions for several types of social insurance related to employment need to be reviewed by a body composed of government representatives, employers, employee unions and other stakeholders. These laws should be further strengthened and implemented. A strong regulatory role by the Government may be needed.

Fourth, rigorous evaluation of current SNPs to identify weaknesses and improve their effectiveness will have to be undertaken.

Fifth, programmes need to be developed which address emerging vulnerabilities such as urban poverty, livelihood loss due to economic integration and policy reforms, and disadvantaged groups not covered by existing SNPs.

Sixth, holistic strategy needs to be developed to provide long-term solutions to entrenched problems such as seasonal poverty in northern districts and other affected areas.

Seventh, introducing health and nutrition related assistance programmes towards reducing maternal mortality and improving child nutrition. An active exploration of a viable school meal programme will be a priority.

Eighth, facilitating the growth of insurance programmes targeted to the poor and vulnerable groups as viable alternatives for their social protection needs. In addressing all of the above, gender concerns will have to be accommodated as a matter of priority.

Consideration could be given to (i) establishing a clearing and designing house for keeping track and coordinating optimal utilization of scarce resources by avoiding duplication and dovetailing programmes so that the needs of the special groups may be catered to; (ii) minimizing the number and improving the accountability of intermediaries who are involved in administering safety net programmes; (iii) establishing a standing arrangement for monitoring and overseeing the development and implementation of policies and programmes for safety net programmes; (iv) coordinating the views and activities of the government and non-government organizations in SSN areas; (v) outsourcing responsibility for implementing safety net programmes at the local level; (vi) introducing periodic evaluation of programmes to throw light on what is working and what is not; and (vii) allowing for reform and consolidation of programmes where needed.

Apart from these, one important aspect of safety net programmes demanding improvement in Bangladesh is the “regional disparity” issue. Uneven distribution of wealth and variation in poverty incidence between regions has to be incorporated in targeting the poor. Employment creation in Monga areas in a more permanent basis should be emphasized.

## **X. CONCLUSION**

The global economic meltdown has clearly affected Bangladesh’s growth prospect, and many sectors have been severely impacted by the global slump in demand for their goods. The government has announced a number of financial, fiscal and policy initiatives to mitigate the economic slowdown, some of which have already been adopted. The primary financial initiative, announced by Bangladesh Bank, was a reduction in the lending rate of commercial banks to a maximum of 13 percent, down from around 14.75 percent. Lower rates of around 7 to 11 percent for agricultural and export loans remained unchanged. Six sectors – RMG, textiles, frozen food, leather, jute and tea - will be given facility for loan rescheduling without down payment for six months. Besides these financial initiatives by the central bank, The Ministry of Finance announced a financial package for the FY 2009. The main focus of this package is on increasing the flow of domestic credit through interest cuts on various loans and channelling credit to more productive uses. Agricultural credit, micro-credit and export credit will be reassessed, as well as loans in default. Credit flows to small and medium enterprises (SME) will be increased and existing rates will be reviewed. Easy loan terms will be encouraged, particularly for the manufacturing sector.

The main fiscal initiative is a stimulus package amounting to Tk. 3,424 crore, consisting of cash subsidies, loan facilities and social security. Cash incentives are given to the jute, leather and frozen foods sectors, which are the main export industries that will benefit. The total additional amount allocated to these exporters will be Tk. 450 crore, a rise of about 43 percent from the existing cash incentives. However, most of the stimulus package is targeted towards domestic sectors. Agricultural is the biggest beneficiary by far, followed by social security. The sector-wise allocations are shown in Table 20.

**Table 20: Sector-wise Allocations of Stimulus Package**

	<b>Current</b>	<b>Additional</b>	<b>Total</b>	<b>Increase (%)</b>
<b>Exports</b>	1050	450	1500	43
<b>Agriculture</b>	4285	1500	5785	35
<b>Power</b>	600	600	1200	100
<b>Farm loan</b>	1000	500	1500	50
<b>Social Security</b>	4195	374	4569	9

Source: Ministry of Finance

For FY 2010, exports will also receive some policy support. A reduction of the VAT on exports will be taken under consideration. Training institutes such as the Bangladesh Institute of Fashion and Technology and National Youth Development Academy will be given directives and there will be some budget allocations to train RMG workers.

However, the main problem with cash incentives is that they are a short-term fix aimed at ensuring the survival of these sectors rather than enhancing their long-term competitiveness and productivity. The proposed policy supports for the upcoming fiscal year also do not mention anything specific about these issues and are somewhat ambiguous in nature. There is no detailed work plan on how these policy supports will actually be implemented. It must also be noted that reduced orders for RMG means that smaller firms and in particular subcontracting firms will be the most severely affected. These sub-sectors have not been identified for more focused government aid. The stimulus package is therefore short-sighted in nature; in contrast to the stimulus packages of other nearby Asian countries such as China and India, which have emphasized long term investments in education, health and social welfare that will eventually lead to increases in worker productivity. In addition to targeting long-term gains in competitiveness and productivity, the government must also correctly identify the sectors and sub-sectors that are currently affected and could be affected in the near future. Private sector involvement in stimulating the economy should be encouraged. In the current stimulus package, policy support to encourage investments is weak and therefore must be addressed. Most importantly, a workable plan to implement these policy supports is urgently needed so that the details can be worked out.

During April 2009, the government of Bangladesh announced an Incentive Package targeting remittance and the overseas workers to mitigate the negative effects that might arise from global economic slowdown. A number of policy supports were announced focusing mostly on enhancing existing training centres and reforming their curricula. In particular, it was highlighted that the National Skill Development Council would be reconstructed and the capacity of the Bureau of Manpower, Employment and Training (BMET) would be enhanced. There would also be revisions of current migrant labour laws and regulations. It was also announced that banks and other formal channels, through which remittances were sent, would be assisted in building a digital network. Private-public partnerships would also be considered for investments in skill development projects. In addition, the Bangladesh Bank would take necessary steps to channel the remittance money into productive investment.

The aforementioned discussion points to the fact that there is a need to strengthen the SSNPs in Bangladesh in order to face the challenges of global economic crisis. Evidently, poverty reduction is not confined to, rather supplemented by, safety nets. However, safety nets undoubtedly are vital options to fight damages from natural disasters as well as from external economic shocks like the on-going global economic crisis for preventing

transmission of poverty from generation to generation in the long run. While on one hand the safety nets provide immediate relief during emergencies, by ensuring employment, education and nutritional intake of the poor, these programs can often play leading role in addressing poverty and inequality in the long run. Success of any such attempt will depend on how, where and for whom the government decides to design the safety net programs.

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