

**State of Unemployment and Poverty**  
**Bangladesh Economic Update**  
May 2014



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## 1. INTRODUCTION

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The current issue of Bangladesh Economic Update calls for growth of labour intensive productive capacity expanding restructuring the economy in order to stave off increasing unemployment and decelerated decline in the incidence of poverty.

Poverty is considered as one of the biggest challenges for Bangladesh. In five-year plans, poverty alleviation has been considered with a very high priority. Despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh, a significant number of people are still living below the poverty line. The rate of unemployment in the country, particularly youth unemployment is rising at a significant rate. Moreover, national rate of wage is still below the poverty bar of USD 2.00 per day. Low wage, lack of employment opportunities together with slowed down of poverty would cumulatively reign in the rate of growth in the country. Therefore, this Update aims to look into wage, employment particularly unemployed youth<sup>1</sup> and its implication on poverty.

*Despite recent progress in poverty alleviation, the magnitude of poverty in Bangladesh remains high in terms of both absolute magnitude and as a per cent of the population.*

Despite recent progress in poverty alleviation, the magnitude of poverty in Bangladesh remains high in terms of both absolute magnitude and as a per cent of the population. A rapid progress in poverty reduction is not possible without an acceleration of economic growth. The country has few natural resources, and agricultural land per rural household is low and is continuing to decline. Therefore, the growth of the economy will require improved productivity of all available resources, including labour. It must, however, be emphasized that the nature of economic growth will be critical for the success of poverty alleviation. Poverty reduction requires employment-friendly and equitable growth. The growth process must generate employment opportunities for the poorer sections and the wage rate and productivity of employment must be such as to generate adequate earning for them (Rahman & Islam, 2003).

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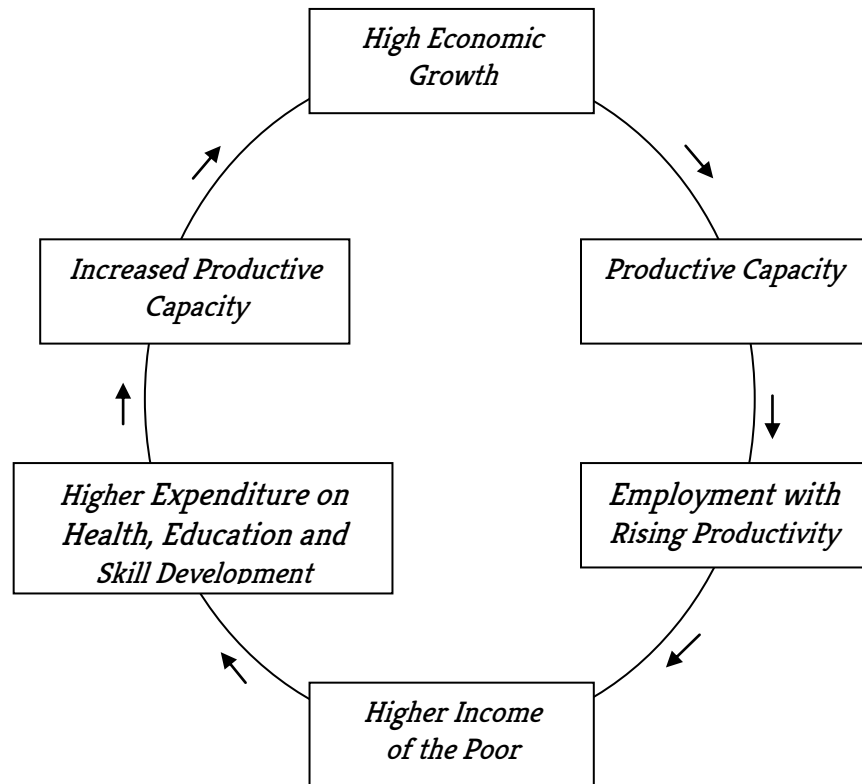
<sup>1</sup> Youth labour force is defined by labour force aged 15-29 years (BBS, 2011)

## 2. LINKAGE BETWEEN ECONOMIC GROWTH, EMPLOYMENT AND POVERTY REDUCTION

*Economic growth contributes to higher employment and higher employment leads to the reduction in poverty based on three factors.*

Economic growth contributes to higher employment and higher employment leads to the reduction in poverty based on three factors. *Growth factor* refers to the expansion of production potential of the economy that is represented by an upward shift of the production possibility frontier. *Elasticity factor*- an upward shift of the production possibility frontier enhances the employment potential (improved quality and quantity of employment). *Integrability factor* - poor people can take advantage of the greater scope for improving the quality and quantity of employment when growth occurs and the employment potential expands.

**Figure 1: Linkage between growth, employment and poverty**



Source: Source: Adopted from ILO Employment and Poverty Discussion Paper 13 (2003)

*Levels of education and skills of the workforce are amongst the key variables that determine the ability of the poor to integrate into and benefit from the growth process.*

The conceptual framework outlined above for analysing the linkage between economic growth, employment and poverty reduction basically, follows a demand-supply approach. The variables that are expected to influence incomes of the poor from the demand side include employment intensity of growth, shifts in the employment structure towards higher productivity sectors, technology, creation of assets for the poor, etc. From the supply side, an important factor is the ability of the poor to integrate into the process of economic growth and get access to the jobs that are created. Levels of education and skills of the workforce are amongst the key variables that determine the ability of the poor to integrate into and benefit from the growth process.

The basic concept is that the incidence of poverty declines with the rise in economic growth. In case of Bangladesh, it seems to be true. In 1995-96, while the country witnessed a GDP growth rate of 4.6 percent, incidence of poverty was 50.1 percent. GDP growth rate in 2000 was 5.94 percent; while incidence of poverty reduced to 48.9 which further reduced to 40 percent in 2005 (growth rate of GDP in 2005 was 5.96 percent). If the current trend persists, incidence of poverty might decrease to 27.73 percent against the GDP growth rate of 6.98 percent by 2013. The incidence of poverty might reduce further to 24.89 percent by 2015 while GDP growth rate might witness at 7.3 percent.

### **3. LINKAGE BETWEEN WAGE, EMPLOYMENT AND POVERTY**

The linkage between poverty and employment at the micro level functions through the type and low productivity of economic activities where the earning members of a household are engaged (Islam, 2004). The linkage between wage, employment and poverty is envisioned as a process in a market economy in which economic growth induces an increase in productive and remunerative employment which leads to a reduction of poverty (Rahman & Islam, 2003; Khan, 2001). The effectiveness of the process in reducing poverty depends on the strength of each link in the process. These links consist of: The rate of growth of the economy, the output elasticity of demand for labour; and the ability of

*Employment opportunities with rising productivity are generated with higher economic growth lead to sustained increase in productive capacity*

the poor members of the labour force to respond to increasing demand for labour, especially for more productive categories of employment.

Employment opportunities with rising productivity are generated with higher economic growth lead to sustained increase in productive capacity. In the process, marginalised people may be able to achieve higher productivity and increase their incomes in their existing occupations, or shift to new occupations involving higher level skills (Saleh, 2012).

### **3.1 Rate of Wage and Implications for Poverty**

Wage income is the major source of income for about one fifth of rural households. In addition, a large percent of the urban poor households depends on wage from unskilled labour. Trends in wage rate should, therefore receive attention in the analysis of employment-poverty linkage (Rahman & Islam, 2003).

### **3.2 Employment and Poverty Linkage**

At the micro level, employment poverty linkage operates in both directions. Labour force and employment related characteristics of a household are likely to influence the probability of its being poor. The poverty status in turn can influence the possibility of being engaged in employment with higher productivity (Rahman & Islam, 2003).

In the labour force, the poor people can be divided into two groups: the *unemployed poor* and the *working poor*. The critical issue regarding the working poor is that why they are poor in spite of their employment. Two broad categories of proximate causes can be stated: *underemployment* and *low returns to labour*. In other words, the quantity and quality of employment determine whether employment would lead to poverty reduction or not. There are types of *underemployment*: 'open underemployment'<sup>2</sup> and 'disguised underemployment'<sup>3</sup>. People who suffer from *low returns to*

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<sup>2</sup> People who work less than full time and cannot earn enough to rise above the poverty line are *open underemployed*.

<sup>3</sup> People who (the Nurkse-Lewis type surplus labour) work full time at low intensity, within an institutional framework that permits both work-sharing and income-sharing are *disguised underemployed*.

*labour* despite working full-time and at high intensity are divided into three categories. First, people who work for very low wages due to competing with potential entrants – the *surplus labour* syndrome. Second, people who work with less skill/ poor technology/ insufficient complementary factors – the *low productivity* syndrome. Third, people who suffer from adverse terms of trade, either because of low product prices, or high input cost, or both – the adverse *terms of trade* syndrome (Saleh, 2012).

*The rate of unemployment, in Bangladesh, grows faster than the employment potential.*

#### 4. EMPLOYMENT TREND IN BANGLADESH

The rate of unemployment, in Bangladesh, grows faster than the employment potential. Labour force grew from 40.70 million in 1999-2000 to 56.70 million in 2010 with a rate of increase of 3.93 percent per annum. The absolute size of the labour force increased by 39.3 percent or approximately, 16 million people over the same period. On the contrary, the number of unemployed persons increased at an annual rate of 5.29 percent during the same period by increasing from 1.70 million in 1999-2000 to 2.60 million in 2010. The number of employed person increased from 39.00 million in 1999-2000 to 54.10 million in 2010 with a rate of growth of 3.87 percent per annum. Although the 'standard' unemployment rate in 2010 was low at 4.58 percent, it did not portray the real picture of the supply-demand balance including the degree of inefficiency that prevails in the labor market.

##### 4.1 Unemployment

With a rate of growth of 3.88 percent (from 1995-96 to 2010), the number of total civilian labour force in 2010 increased to 57.1 million. In 1995-96, total civilian labour force was 36.1 million out of which 30.7 million was male and only 5.4 million was female. The rate of growth of female labour force (14.20 percent) was seven times more than that of male labour force (2.06 percent). Out of total civilian labour force, 40.2 million was male and rest 16.9 million was female. A total of 34.8 million were employed and 1.4 million were unemployed in 1995-96 which increased to 54.5 million and 2.6 million of employed and unemployed

population respectively in 2010 (BBS, 2011). If the current trend continues, employed population might increase to 64.6 million and unemployed population to 3.3 million by 2015.

**Figure 2: Employment and unemployment trend in Bangladesh**



Source: Author's calculation based on Labour Force Survey (1999-2000, 2002-03, and 2005-06), Monitoring of Employment Survey (2009), Bangladesh Bureau of Statistics

Educational stipend and other initiatives taken by the GoB to improve the condition of female education, have not only increased the rate of enrolment and primary education of female child but also created opportunities before them to enter into the employment market (Rahman, 2005). In 1995-96, male labour force constituted 85.92 percent (29.9 million) against 14.08 percent (4.9 million) of their female counterparts. Female employed population in 2010 increased to 29.94 percent (16.2 million) of the total employed population of 54.1 million. Business as usual scenario suggests that 19.8 million employed population 1.2 million unemployed population might be female in 2015.



**Figure 3: Employment and unemployment trend in Bangladesh (gender wise)**



Source: Author's calculation based on Labour Force Survey (1999-2000, 2002-03, and 2005-06), Monitoring of Employment Survey (2009), Bangladesh Bureau of Statistics

## 4.2 Underemployment

Theoretically, the notion of underemployment<sup>4</sup> is related to a situation when the employment of a person is inadequate in terms of hours of work, income earnings, productivity and use of skills, and the person is looking for better or additional work in conformity with his/her education and skills (Bangladesh Bank, 2008).

*When underemployment is taken into account in assessing the status of the labour force in Bangladesh, the perception of the labour market significantly changes.*

When underemployment is taken into account in assessing the status of the labour force in Bangladesh, the perception of the labour market significantly changes. The information on hours worked shows that a total of 10.99 million (which is about 20.31 per cent of the employed labour of 54.1 million) were underemployed in 2010. This shows an extremely high level in the number of the people who work less than 35 hours per week. Also the information shows high incidence of underemployment in rural areas and among the female labour force. During 2010, the share of the employed labour force who worked less than 35 hours per week was nearly 22.67 percent in the rural areas compared with 12.40 percent in the urban areas and was as high as 34.15 percent among

<sup>4</sup> Underemployment occurs when a person works less than 35 hours in the reference week.

*In Bangladesh, the nature and extent of employment of the youth is an important indicator of the additional employment generating capacity of the economy.*

females against 14.40 percent for males. Of the total number of underemployed labour, nearly 47 per cent were female.

### **4.3 Youth Labour Force and Employment**

Youth unemployment or employment crisis is a global challenge, though its social and economic characteristics vary considerably in size and nature from one country and region to another (ILO, 2012). In Bangladesh, the nature and extent of employment of the youth is an important indicator of the additional employment generating capacity of the economy. Alternatively, the extent of unemployment of youth labour indicates the failure of the growth process to create enough jobs for the new entrants to the labour force and, consequently, the loss of potential income and welfare (Bangladesh Bank, 2008).

In 2010, 20.90 million (36.86 percent) out of 56.70 million of the total labour force was youth labour (15-29 years) although the share of youth is about 41.15 percent in total working aged population (15 years and above). Between 2006 and 2010, although the total labour force increased by 7.20 million, the number of youth labour increased by 3.10 million. Significant gender difference in the growth of male and female labour may also be noted during the period. While the absolute number of male youth labour increased by 0.10 million and youth female labour by 3.20 million. Considering total labour force, male and female labour force increased by 2.20 and 5.10 million respectively.

The failure to provide adequate employment opportunities especially to youth labour has significant economic and social implications in Bangladesh. In 2010, the share of unemployed youth labour in total unemployed labour was 61.54 percent revealing that 1.6 million out of a total of 2.6 million unemployed persons were youth.

**Table 1: Employment status of total and youth population**

Category	LFS 2005-06			LFS 2010		
	Total	Male	Female	Total	Male	Female
<b>Total Population</b>						
Total Population	137.3	70.04	67.26	147.74	74.15	73.59
Total Working Age (age 15+) Population	84.6	43	41.6	95.5	47.8	47.7
Total Labour Force	49.5	37.3	12.1	56.7	39.5	17.2
Employed	47.4	36.1	11.3	54.1	37.9	16.2
Unemployed	2.1	1.2	0.9	2.6	1.6	1
Not in Labour Force	35.1	5.7	29.4	38.9	8.4	30.5
<b>Youth Population</b>						
Total Youth Population	34.3	16.9	17.4	39.3	18.9	20.4
Youth Labour Force	17.8	13.2	4.6	20.9	13.1	7.8
Employed	16.3	12.2	4.1	19.3	12.2	7.1
Unemployed	1.4	0.9	0.5	1.6	0.9	0.7
Not in Labour Force	16.5	3.7	12.8	18.3	5.7	12.6

Source: Labour Force Survey 2005-06 and 2011, Bangladesh Bureau of Statistics

The trends are similar for both female and male youth as well as in rural and urban areas. For the youth labour, the disadvantaged situation is also reflected in high youth unemployment rate compared with the overall unemployment rate in the country. While the unemployment rate for the labour force as a whole was 4.59 percent in 2010, the youth unemployment rate was recorded at 7.66 percent.

## 5. WAGE

Despite of concentration on only poverty reduction, the increasing rate of unemployment together with low rate of wage are dragging the population below the poverty line. Population living on less than USD 2.00 a day is considered to live in poverty (World Bank, 2013). According to World Bank, 76.5 percent were living in poverty in 2010 considering the income of less or equal to USD 2.00 per day.

If the income bar of poverty of the World Bank is considered, the daily wage rate of the country is next challenge after employment in achieving the target of poverty reduction. Daily wage rate of male at national level is Tk. 171, while it is Tk. 170 is for female. The corresponding rates are Tk. 167

*Despite of concentration on only poverty reduction, the increasing rate of unemployment together with low rate of wage are dragging the population below the poverty line.*

(male) and Tk. 161 (female) at rural level; and Tk. 171 (male) and Tk. 170 (female) at urban level. The highest daily wage of male is TK. 218 from education and recreation sector, while the highest wage of female is Tk. 204 from hotel and restaurant.

**Table 2: Average daily wage rate (selected industries)**

Major Industry	Male	Female	Both
Agriculture	149	169	153
Manufacturing	187	170	186
Construction	189	172	187
Hotel and Restaurant	168	204	172
Transport, Storage and Communication	212	146	212
Banking and Insurance	120	NA	120
Education and Recreation	218	NA	218
Health and Social Worker	180	125	161
Community and Personal Services	175	164	174

*Considering involvement in major industries, the average monthly income of male and female are Tk. 6922 and Tk. 4857 respectively.*

Source: Report on Monitoring and Employment Survey-2009, Bangladesh Bureau of Statistics (BBS)

Considering involvement in major industries, the average monthly income of male and female are Tk. 6922 and Tk. 4857 respectively. This illustrates inequality in monthly income, as the average monthly income of male employees is higher than those of female employees (only exception is Administrative manager).

According to the wage rate index, the general wage rate is accelerating. The growth of general wage rate increased from 11.9 percent in FY 2011-12 to 14.7 percent in FY 2012-13. The rise in wage rate in the agriculture sector was the highest which was 21.4 percent while manufacturing sector recorded lowest growth rate of 10.5 percent in FY 2012-13. Though rate of growth of wages for all the sectors experienced higher growth, the construction sector

experienced lower growth as compared to that in FY 2011-12 (Bangladesh Bank, 2013).

## 6. DYNAMICS OF LABOUR FORCE

The development in Bangladesh is an aggregate product of multiple factors while labour remains at the core. The growth rate of youth labour force during the period from 1999-2000 to 2010 has stood at 3.72 percent while the growth rate of total labour force was 3.37 percent per year. The intrinsic compulsion for feminisation of labour force is reflected in differentiated rate of growth. Women participation in labour market in Bangladesh increased with a rate of 10.0 percent between 1999-2000 and 2010. The number of employed women has increased from 7.9 million in 1999-2000 to 16.2 million in 2010 with an annual rate of 10.51 percent. The migration of labour plays a significant role, reflecting the differences in rate of increase in labour force in rural and urban areas, resulting in skewed distribution of employment against the urban areas. The rural labour force grew by 3.27 percent while urban areas saw an annual increment by 3.76 percent. The trend has been growing over the years. The lopsided distribution resulted in 6.5 percent unemployment in urban areas against 4 percent of rural areas in 2010. The formal work environment has undergone a process of rapid transformation in the context of globalisation and technological change, leaving the majority of the workforce in the informal sector. The number of employed labour (15+ years) in informal sector increased to 47.3 million in 2010 from 29.3 million in 1999-2000 with an annual rate of increase of 6.14 percent.

*The proportion of poor in the population declined considerably between 2000 and 2010, but the incidence of poverty witnessed a slower pace during 2005-2010 than 2000-2005.*

## 7. POVERTY TREND IN BANGLADESH

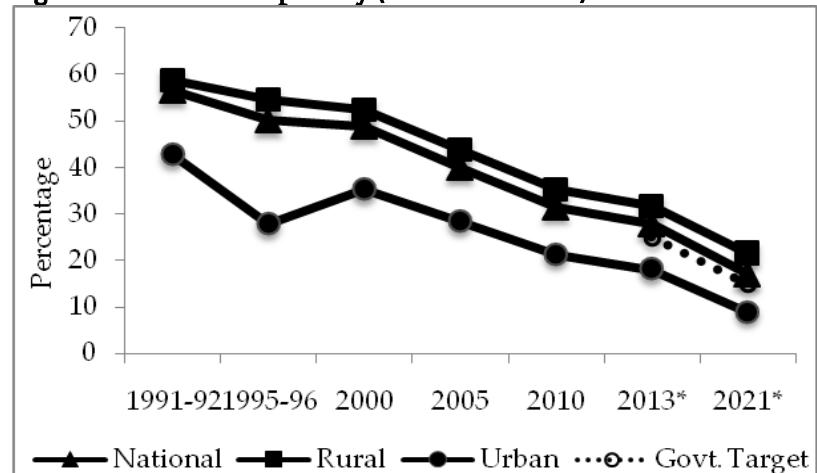
The proportion of poor in the population declined considerably between 2000 and 2010, but the incidence of poverty witnessed a slower pace during 2005-2010 than 2000-2005. The incidence of poverty decreased by 9.8 percentage points during 2000-2005 (i.e. from 49.8 percent in 2000 to 40 percent in 2005) while the next five years (2005-2010) witnessed a decline from 40 percent in 2005 to 31.5 percent in 2010 (i.e. by 8.5 percentage points).

## 7.1 Incidence of Poverty

Discussion on determinants, trends and incidence of poverty in Bangladesh is based on the Household Income & Expenditure Survey (HIES) conducted at the household level by the Bangladesh Bureau of Statistics (BBS) since FY 1973-74. Poverty estimates, patterns and trends are determined by analysing data on household consumption expenditures and poverty lines are compared to separate the poor from the non-poor and estimate the extent of poverty. Poverty situation is better in the central region, moderate in north-eastern and south-eastern region while the rest - north-west and south-west, is most poverty prone.

*Poverty estimates, patterns and trends are determined by analysing data on household consumption expenditures and poverty lines are compared to separate the poor from the non-poor and estimate the extent of poverty.*

**Figure 4: Incidence of poverty (1991-92 to 2010)**



Source: Author's calculation based on Household Income & Expenditure Survey (1991-92, 1995-96, 2000, 2005, 2010), Bangladesh Bureau of Statistics, 2012

Bangladesh has made remarkable development in the fight against poverty during the last two decades. The incidence of poverty has come down to 31.5 percent in 2010 with respect to 56.6 percent in 1991-92 (Figure 3). The frequency of poverty has dropped down by 17.4 percent during 2000 to 2010, whereas it was only 7.7 percent in the last decade (1991-92 to 2010). However, decline in the aggregate poverty in the subsequent period was associated with decline in urban poverty (Zohir, 2011).

The current government of Bangladesh has a commitment to reduce the rate of poverty to 25 percent by 2013 and 15 percent by 2021. According to head count rate (CBN) (using

upper poverty line of latest available national statistics on poverty), the incidence of poverty in Bangladesh decreased to 31.5 percent in 2010 at the national level with an annual average rate of decrease at 1.32 percent from 1991-92. If this trend of decline persists, the incidence of poverty might slide down to 27.5 percent and 17.0 percent by 2013 and 2021, which are higher by 2.5 and 2.0 percent respectively than those of the targets of the present Government. To achieve the targets within the time limits (i.e. by 2013 and 2021), it is required to reduce the rate of poverty by 2.2 percent in 2013 and 1.5 percent in 2021.

*The accelerated pace of rural-urban migration might be one possible reason (Titumir & Rahman, 2011). Lack of assets, limited economic opportunities, poor education and inadequate capabilities has resulted into rural poverty (IFAD, 2010).*

The incidence of poverty in rural areas has decreased from 58.7 percent in 1991-92 to 35.2 percent in 2010 with an annual average decrease rate of 1.24 percent. However, in urban areas, the incidence of poverty has decreased by 1.13 percent per annum from 42.7 percent in 1991-92 to 21.3 percent in 2010. Between 2000 and 2010, the incidence of poverty has reduced by 17.1 percent in rural areas and 13.9 percent in urban areas with respect to 6.4 and 7.5 percent respectively in rural and urban areas from 1991-92 to 2010. It is evident the incidence of poverty is higher in rural areas than that of the urban areas and the decreased rate of poverty is also higher in rural areas than that of the urban areas. The accelerated pace of rural-urban migration might be one possible reason (Titumir & Rahman, 2011). Lack of assets, limited economic opportunities, poor education and inadequate capabilities has resulted into rural poverty (IFAD, 2010).

## **7.2 Income and Food Poverty**

The rate of income poverty measured by Cost of Basic Need (CBN) method, the upper poverty line has declined from 58.8 percent to 48.9 percent during the period from 1991 to 2000. Based on the upper poverty line, the incidence of poverty is estimated at 31.5 percent at the national level, 35.2 percent in the rural area and 21.3 percent in the urban area. In contrast in 2005, these rates were 40.0 percent at the national level, 43.8 percent in the rural area and 28.4 percent in the urban area. Poverty has declined by 8.5 percent that is on average approximately 1.7 percent per annum at national level, 8.6



percent in the rural area and 7.1 percent in the urban area during 2005 to 2010.

**Table 3: The trend of change of poverty**

	2000	2005	2010	Annual change (%)		
				[2000-2005]	[2005-2010]	[2000-2010]
<b>Head Count Index</b>						
National	48.9	40	31.5	-3.64	-4.25	-3.55
Urban	35.2	28.4	21.3	-3.86	-5.00	-3.94
Rural	52.3	43.8	35.2	-3.31	-3.93	-3.27
<b>Poverty Gap</b>						
National	12.8	9	6.5	-5.93	-5.55	-4.92
Urban	9.1	6.5	4.3	-5.71	-6.77	-5.27
Rural	13.7	9.8	7.4	-5.69	-4.89	-4.59
<b>Squared Poverty Gap</b>						
National	4.6	2.9	2	-7.39	-6.20	-5.65
Urban	3.3	2.1	1.3	-7.27	-7.61	-6.06
Rural	4.9	3.1	2.2	-7.35	-5.80	-5.51

Source: Author's calculation based on Household Income and Expenditure Survey (HIES)-2010, Bangladesh Bureau of Statistics (BBS)

Based on the lower poverty line in 2010, the incidence of poverty is estimated at 17.6 percent at national level, 21.1 percent in the rural area and 7.7 percent in the urban area. In contrast to 2005, these rates were 25.1 percent at national level, 28.6 percent in the rural area and 14.6 percent in the urban area. Hard core poverty declined by 7.5 percent at national level as well as in the rural area and 6.9 percent points in the urban area during 2005 to 2010. The depth and severity of poverty have also declined. Poverty gap that is the depth of the poverty has declined from 4.6 percent in 2005 to 3.1 percent in 2010 and the squared poverty gap that is the severity of the poverty has declined from 1.3 percent in 2005 to 0.8 percent in 2010.

The rate of change of poverty measured by different criteria-head count index, poverty gap and squared poverty gap with three categories- national, urban and rural on different time horizon are shown here (Table 3). The per capita calorie intake in a day is increased by 3.6 percent to 2,318.3 kcal in 2010 from 2,238.5 kcal in 2005. It went up by 4.1 percent in the rural areas and 2.3 percent in the urban areas.



**Table 4: Per capita per day calorie (kcal) intake by residence HIES 1991-92 to 2010**

Year	Residence		
	National	Rural	Urban
2010	2318.3	2344.6	2244.5
2005	2238.5	2253.2	2193.8
2000	2240.3	2263.2	2150.0
1995-96	2244	2251.1	2209.1
1991-92	2266.6	2267.8	2258.1

Source: Household Income and Expenditure Survey (HIES)-2010, Bangladesh Bureau of Statistics (BBS)

*Income accruing to households belonging to Decile-1 to Decile-5 is recorded at 2.00 percent, 3.22 percent, 4.10 percent, 5.00 percent and 6.01 percent respectively at national level in 2010. These shares have not changed relative to 2005.*

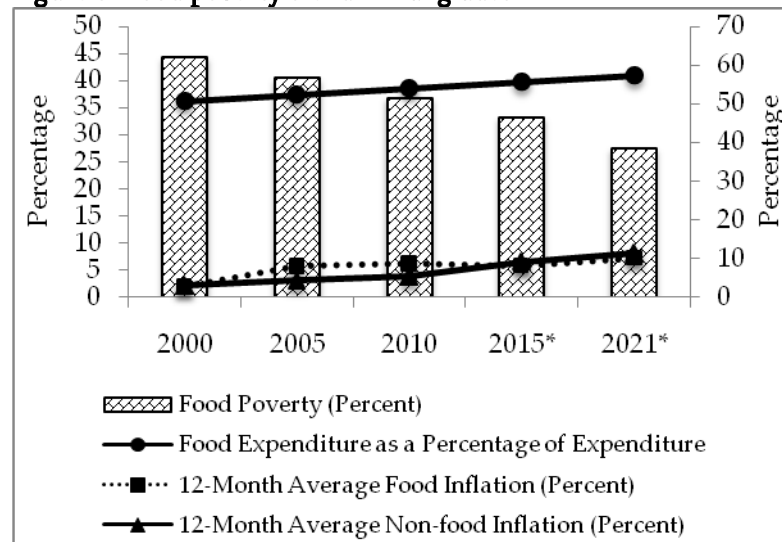
However, according to Household Income and Expenditure Survey (HIES) 2010, the country did not perform well in redressing inequality during the period as wealth remain trapped to some particular people. Inequality (Gini) of per capita income stood at 0.458 in 2010, which was 0.467 in 2005. The overall calorie intake per capita per day increased by 3.6 percent to 2318.3 kcal in 2010 from 2238.5 kcal in 2005. It increased by 4.1 percent in the rural areas and 2.3 percent in the urban areas.

The concentration of income has slightly decreased. The Gini co-efficient of income has decreased at 0.458 from 0.467 in 2005. Income accruing to households belonging to Decile-1 to Decile-5 is recorded at 2.00 percent, 3.22 percent, 4.10 percent, 5.00 percent and 6.01 percent respectively at national level in 2010. These shares have not changed relative to 2005. These five deciles have continued to share only 20.33 percent of total income, although they comprised 50 percent of the population.

### **7.3 Poverty and Inflation**

Bangladesh has experienced a higher rate of inflation in the recent past. The rate of 12-month average inflation is higher in the food sector than in the non-food sector during the last decade. During these years, changes in inflation have not followed any monotonic pattern. 12-month average food inflation increased to 7.35 percent in 2013 from 2.68 percent in 2000 with an annual rate of increase of 13.40 percent. Side by side with the prices of food items, house rent, transportation cost, expenditure on clothing and all other necessary commodities have also increased.

Figure 5: Food poverty trend in Bangladesh



Source: Author's calculation based on Bangladesh Bureau of Statistics, 2003, 2007, 2011 and Monthly Economic Review, 2012

The expenditure on non-food sector is not lagging behind in terms of this rate of increase. The 12-month average non-food inflation increased from 3.08 percent to 8.43 percent with a rate of increase of 13.36 percent per annum during the same period. Usually, a rise in the food price always increases the prices of other goods. When expenditure increases on purchasing food items, the prices of other goods also increase in a race with that. Food inflation has a profound nexus with poverty and inequality. Food inflation hits the poor hardest since their purchasing power decrease due to the erosion in real income. As a result, the people have to pass their days amid hardship. The marginalised people have to dedicate the largest share of their income to food.

*The expenditure as a percentage of total expenditure increased from 50.75 percent in 2000 to 53.85 percent in 2010. Therefore, with the increase in food prices, they have the least ability to cut non-food expenditure for compensating the increased cost of food.*

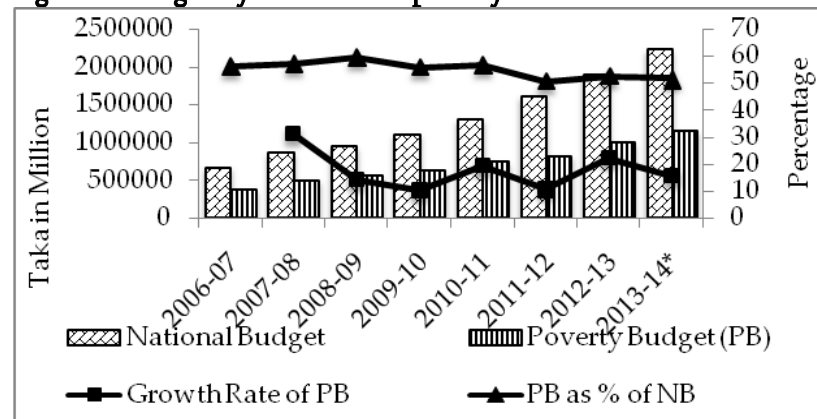
The expenditure as a percentage of total expenditure increased from 50.75 percent in 2000 to 53.85 percent in 2010. Therefore, with the increase in food prices, they have the least ability to cut non-food expenditure for compensating the increased cost of food. Price hike of food commodities over the past few years have eroded the purchasing power of the marginalised section and let them go down under the poverty line. Increase in food inflation drags down additional number of people under the poverty line (Saleh *et al.*, 2011). The mounting trend of food inflation as well as non-food inflation has adverse impact on the food

intake behaviour sliding down more people into poverty. About 0.04 million people might newly added to the total population living under the poverty line due to one percent increase in the food inflation (Saleh, 2012). It is evident that the incidence of food poverty was 44.33 percent in 2000 and reached to 40.4 percent in 2005 with a rate of reduction of 1.77 percent per year. According to the historical track record, the food poverty might reach at 34.67 percent, 33.23 percent and 27.49 percent in 2013, 2015 and 2015 respectively. Though Bangladesh has achieved a moderate progress in reducing income poverty but, the rate of reduction in food poverty is comparatively slower.

### 8. BUDGETARY ALLOCATION IN POVERTY REDUCTION

With the broader perspective of alleviating poverty and achieving the targets of Millennium Development Goals (MDGs), the Governments has been allocating around 55 percent of its national budget as poverty budget in each fiscal year. In FY 2013-14, Tk. 1152370 million has been allocated as poverty budget that is 15.55 percent more than that of the poverty budget of Tk. 997290 million of FY 2012-13. Poverty budget of the current fiscal year (FY 2013-14) is 51.79 percent of the national budget and 9.69 percent of Gross Domestic Product (GDP). The Government allocated 56.10 percent in FY 2006-07, 57.07 percent in FY 2007-08, 59.59 percent in FY 2008-09, 55.92 percent in FY 2009-10, 56.67 percent in FY 2010-11, 50.60 percent in FY 2011-12, 52.67 percent in FY 2012-13 and 51.79 percent in FY 2013-14 as poverty budget of total budget outlay.

**Figure 6: Budgetary allocation in poverty alleviation**



Source: Author's calculation based on Ministry of Finance, Finance Division, GoB, 2014

## 9. WAY FORWARD

*An efficient growth strategy endogenous to the process of poverty reduction could be the promotion of self-employment among the poor by converting them into micro entrepreneurs.*

### ***Employment Intensive Growth***

With the rising unemployment in the country, it is the time to move forward to adopt employment incentive growth strategies. For the promotion of an adequately high rate of employment-intensive growth, incentives supported by public investment are needed to be announced and implemented by an enabling system of governance.

### ***Conversion into Productive Entrepreneurs***

An efficient growth strategy endogenous to the process of poverty reduction could be the promotion of self-employment among the poor by converting them into micro entrepreneurs. The promotion of self-employing micro enterprise also derives from the fact that this is an effective way of pushing outwards the production possibilities of the economy.

### ***Increase Productivity in Wage and Self-employment***

Increased productivity leads to an increased demand for wage labour which is translated into increased employment or wages or both. Increased productivity of the self-employed workers directly raises their income. Increased productivity therefore enhances the prospect of the labour-dependent households to escape poverty.

### ***Specially designed Employment Opportunities***

Not all poor households have the ability to benefit from employment opportunities that economic growth offers in a market economy. Employment opportunities need to be designed by considering the excluded, under-privileged and disadvantage groups those who live in extreme poverty. Otherwise, the benefit of employment generation would be far away from the desired goal. Employment opportunities for youth labours should be the prime topic of consideration in this respect.

### ***Adoption of Employment Security Policies***

In a market economy, employees have limited (in some cases, no) bargain opportunity considering employment and earning with the employers. Those who are subject to these

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vulnerabilities have often been identified as groups in, or at risk of, poverty. Cautions need to be exercised in adopting policies for employment security at regulated wage. Legislation of minimum wages, regulation of conditions of work, and rules for termination of employment are needed to be considered with a priority basis.

## 10. CONCLUSIONS

The developments in the labour market are vital for bringing about desirable changes in growth possibilities and meeting poverty reduction in a 'labour-surplus' economy like Bangladesh. Employment provides the key link between economic growth and poverty making it the major tool for poverty reduction in Bangladesh. Equitable income and asset distribution need to be ensured by public policies and investments for ensuring such a process of growth. Economic growth needs to be inclusive so that it can generate more income and employment opportunity for the poor. The key challenge is to expand decent employment opportunities through both wage and self-employment to absorb the growing labour force.

The policy framework needs to promote an employment-friendly environment, encourage labour-intensive restructuring in both formal and informal sectors, facilitate the skill development of the labour force, and bring about appropriate changes in labour market policies. In addition, the policies must seek to fulfil the aspirations of the people in their working lives including opportunities, incomes, rights, voices, and recognition. The poverty reduction strategy country would be sustainable, if it is consistent with a well-articulated employment strategy that creates productive and decent employment opportunities so that workers of every level of skill, education, and training can get remunerative employment.

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## Appendix A

**Table 5: Poverty trend**

Year	International Standard		National Standard	
	Millions of Poor	Poverty Headcount Ratio (%)	Millions of Poor	Poverty Headcount Ratio (%)
1992	75.7	70.2	62.4	56.6
1996	71.6	60.9	60.1	50.1
2000	75.9	58.6	63.4	48.9
2005	71	50.5	56.2	40
2010	64.3	43.3	46.9	31.5

Source: Poverty & Equity Data, The World Bank, 2012

Mathematical Equation

$$P_l = P_b (1 + ry)$$

$$\Rightarrow r = \frac{1}{y} \left( \frac{P_l}{P_b} - 1 \right)$$

Where,

$P_l$  = Value of the launch year;

$P_b$  = Value of the base year;

y = Number of years between launch year and base year;

r = Rate of growth.

Then, a projection using this method could be computed as:

$$P_t = P_l (1 + rz)$$

Where,

$P_t$  = Value of the target year;

$P_l$  = Value of the launch year;

z = Number of years between target year and launch year;

r = Rate of growth

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