

SCOPING REPORT ON POVERTY AND SOCIAL PROTECTION IN BANGLADESH

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March 2013¹

¹ Updated on December 2013. This report has been commissioned by the Australian government to provide an overview and analysis of Bangladesh's social protection system. The report does not represent the views of the Australian government. "AusAID" is now known as Department of Foreign Affairs and Trade (DFAT).

ACRONYMS

ADB	Asian Development Bank
BBS	Bangladesh Bureau of Statistics
BNPL	Basic Needs Poverty Line
BRAC	Bangladesh Rural Advancement Committee
BWDP	Bangladesh Water Development Board
CCT	Conditional Cash Transfers
CFPR	Challenging the Frontiers of Poverty Reduction
CLP	Chars Livelihood Program
DFID	Department for International Development
DHS	Demographic and Health Survey
DWA	Directorate of Women Affairs
FLS	Food and Livelihood Security
FSUP	Food and Security for the Ultra-Poor
GDP	Gross Domestic Product
GED	General Economic Division
HIES	Household and Income Expenditure Survey
ILO	International Labour Organisation
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
LGED	Local Government Engineering Department
MIS	Management Information Systems
MoLG	Ministry of Local Government
MoPME	Ministry of Primary and Mass Education
MoSW	Ministry of Social Welfare
MoWCA	Ministry of Women and Children's Affairs
NGO	Non-Governmental Organisation
NSPS	National Social Protection Strategy
OAA	Old Age Allowance
PSLP	Public Sector Linkages Program
PMT	Proxy Means Test
REOPA	Rural Employment Opportunities for Public Assets
SP	Social Protection
ToC	Theory of Change
TUP	Targeting the Ultra-Poor
UNDESA	United Nations Department for Economic and Social Affairs
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VGd	Vulnerable Group Development
VGf	Vulnerable Group Feeding
WFP	World Food Program

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EXECUTIVE SUMMARY

In recent years, Bangladesh's economy has grown strongly and the country has made good progress in reducing poverty. While the national poverty rate was 49 percent in 2000, it had reduced to 31.5 percent by 2010. However, Around 84 percent of the population was, in 2010, living under the equivalent of US\$2 per day, which many would regard as a more reasonable measure of poverty and could be understood as the proportion of families experiencing hardship. Therefore, a majority of the population can be regarded as either poor, experiencing hardship or highly susceptible to falling into poverty and, therefore, likely to benefit from well-designed social protection schemes.

Particular categories of the population are especially vulnerable to poverty:

- Households with young children have high poverty rates while young children experience high levels of undernutrition, with 41 percent stunted. While undernutrition has improved significantly in the past 20 years – suggesting that higher incomes are contributing to improvements – there is still much to do.
- Among poorer children, many are out of school or drop out as they grow older, with 30 percent of poor 11-15 year olds out of school. Boys are less likely to attend school than girls, probably because families depend on them more as sources of income: 24 percent of boys aged 5-17 years and 10 percent of girls are child labourers.
- Young people experience high levels of unemployment and underemployment. Around 2.7 million young people enter the labour market every year, but only 0.7 million are able to find work. One challenge faced by young people is low skill levels – probably as a result of an inadequate education system – which means that Bangladesh may lose out on a “demographic dividend” which comes from having a higher ratio of people of working age compared to dependents.
- Underemployment and low skill levels also characterise the broader working age population. A third of the labour force has no option but to engage in low-paid daily wage labour, mainly in the agricultural sector, with most living in absolute poverty. Few women are engaged in the labour market, which impacts on family incomes. They also experience significant gender discrimination and female-headed households are particularly vulnerable. In some areas of the country, it is much more challenging for people to find work. Increasing numbers of people are migrating in search of employment, but they are mainly from wealthier regions. The poor are less able to migrate and only 15 percent of migrants are women. Working age people are at risk of a range of shocks – such as illness, disability and the need to pay dowries – which can throw many into poverty.
- Around 8.9 of the population is disabled, while 1.5 percent are severely disabled. Indeed, 31 percent of households have a disabled member. Disability is most challenging when it hits a breadwinner and can throw families into deep poverty almost immediately. People with disabilities find it challenging to enter school and engage in the labour market.
- Bangladesh is an ageing population. Around 8 percent of the population is over 60 years and this will increase significantly in the coming decades, reaching almost 14 percent by 2030 and 25 percent by 2050. Traditional systems of care are breaking down – in particular among the poor – and older people are at significant risk of poverty. When people do take care of their elderly parents,

this can act as an informal tax on working families, reducing their ability to care for their own children and invest in income generating activities.

Bangladesh is also particularly liable to natural shocks, especially floods and cyclones. These can cause significant harm to livelihoods pushing large numbers of people into poverty. The country is also vulnerable to economic shocks, such as the food and fuel crisis of 2008/09, which can also impact on family incomes. In coming decades, climate change is likely to increase Bangladesh's exposure to natural shocks.

While many government schemes in Bangladesh are classified as social protection – with overall spending (according to a broad understanding of social protection) at 2.5 percent of GDP in 2011 – in reality, many would not be regarded as social protection under narrower definitions that focus on *regular and predictable transfers for individuals, families and households*. Under this definition, only 13 schemes have individual expenditures of over Tk.500 million per year and expenditure on what could be considered as core social protection schemes is only around 0.77 percent of GDP. As a comparison, Nepal's expenditure as a percentage of GDP is higher, yet it is a poorer country.

All social protection schemes are small in terms of overall spending, with few over 0.1 percent of GDP, which is low by international standards. The largest schemes in terms of beneficiaries are the Stipend schemes – reaching 9.45 million children – and the Old Age Allowance. Workfare programs have the largest spending, but reach relatively few beneficiaries. There are no significant programs directed at young children with the aim of tackling early childhood undernutrition, although there are two small child grants in the Ministry of Women and Children's Affairs (MoWCA) which could form the basis of a future more comprehensive child grant program.

Impacts from the current social protection system are low, certainly in relation to the level of spending. When all programmes understood by Bangladesh as social protection are taken into account, the impact on the poverty gap – according to the 2010 national household survey – is only 12.2 percent despite relatively high spending. The reasons for poor performance are: low coverage, with only 25 percent of the population receiving a benefit; uneven geographical coverage, with particularly low coverage in urban areas; poor targeting performance, with only 35 percent of households under the poverty line in 2010 receiving a benefit; and, transfer levels that are too low to impact on poverty. Secondary impacts on undernutrition, health, schooling, economic activity and economic growth are also almost certainly minimal.

While it is often claimed that over 20 Ministries are responsible for social protection, six Ministries oversee the main core social protection schemes. If the Civil Service Pension – overseen by the Ministry of Finance – is not taken into account, the Ministry of Disaster Management manages the largest social protection budget while the Ministry of Social Welfare is the other prominent Ministry in terms of the size of its social protection budget, with responsibility for delivering five schemes. There is, however, no Ministry responsible for overall policy on social protection. By default, key policy initiatives – such as the decision to develop a National Social Protection Strategy – are taken by the Cabinet Secretariat, in consultation with other Ministries. However, the Ministry of Finance, under the leadership of the Cabinet, is responsible for budget decisions, which are the main driver of policy. Line Ministries are able to propose budgets to the Ministry of Finance but have little influence over the final allocation.

Social protection – or, more accurately, social security – is guaranteed as a right in the Constitution of Bangladesh. The 6th Five Year National Development Plan proposes an increase of 1 percent in the national social protection budget, although progress in the past 2 years has not matched this commitment. The government is developing a National Social Protection Strategy (NSPS), which, it hopes, will set out proposals for reform of the overall sector. However, significant improvements are unlikely to happen unless there is a paradigm shift in social protection policy with moves away from a focus on the extreme poor – which, to date, has failed the extreme poor – to a more inclusive vision of a comprehensive social protection system.

Potential areas of focus for reforms could include: a move to more inclusive lifecycle social protection schemes; changes to the governance of the social protection sector; reforms in the management and delivery of schemes; and, the introduction of new approaches to social protection. Details on each of these areas are set out below.

- Micro-simulations undertaken for the scoping study – using the 2010 national household survey – indicate that a move to more inclusive schemes for young children or old age pensions with higher transfer levels could improve coverage among the poor and increase impacts on poverty.
- Potential reforms to governance could include: identifying a Ministry as having the overall lead on social protection policy and coordination, although this may well remain, in practice, the Ministry of Finance; consolidating schemes into fewer Ministries; and, consolidating responsibilities for scheme implementation at local level by, for example, creating a professional social protection service that delivers a range of schemes at local level, reporting directly to central government.
- A potential area of reform would be to focus on strengthening delivery systems for priority schemes, taking advantage of new technologies, where feasible. This could include: improving management information systems (MIS), selection and registration mechanisms, grievance schemes and the delivery of cash; developing operational guidance on the delivery of schemes; and building the capacity of staff.
- Bangladesh could consider establishing alternative approaches to social protection, including the development of a contributory pension scheme and free childcare services. A contributory pension scheme would help the country prepare for an ageing crisis and provide significant investment funds for business. Childcare services could enable young women to enter and remain in the labour force, which could have significant positive impacts on child poverty.

1. INTRODUCTION

Since independence, Bangladesh has made remarkable strides in developing a viable and vibrant economy and improving the lives of its citizens. Nonetheless, many challenges remain, not least a significant proportion of the population still experiencing hardship and poverty as well as high rates of child undernutrition. While economic growth will continue to play a significant role in further poverty reduction – assuming that it also generates employment – it will, by itself be insufficient. It will need to be complemented by continuing government investment in building comprehensive and good quality public services.

Across developing countries, formal social protection systems are increasingly recognised as essential public services and core components of effective and efficient market economies. Social protection can play a key role in redistributing wealth to the most vulnerable members of society, building human capital, enabling families to engage more effectively in the labour market and supporting economic growth by generating greater consumption in the economy. A growing number of developing countries have, over the past decades, significantly increased their investments in social protection. Bangladesh has – when compared to other low-income countries – built a relatively extensive national social protection system benefitting around 25 percent of the population. In recent years it has consistently invested more than 2 percent of GDP in social protection, a significant commitment given relatively low tax revenues.

However, it is also evident that the national social protection system faces significant challenges. The coverage and impacts of the system are well below what should be expected from the level of current investment. A high proportion of poor families miss out on benefits, the value of transfers is consistently low and delivery systems are relatively weak. In fact, no single social protection scheme is of sufficient size to satisfactorily achieve its specific objectives. Instead of concentrating resources on a small number of priority schemes, there has been a continuing multiplication of schemes, with a wide range of Ministries involved in their delivery. There is also a range of schemes that, when introduced, served a purpose but have gradually lost their relevance.

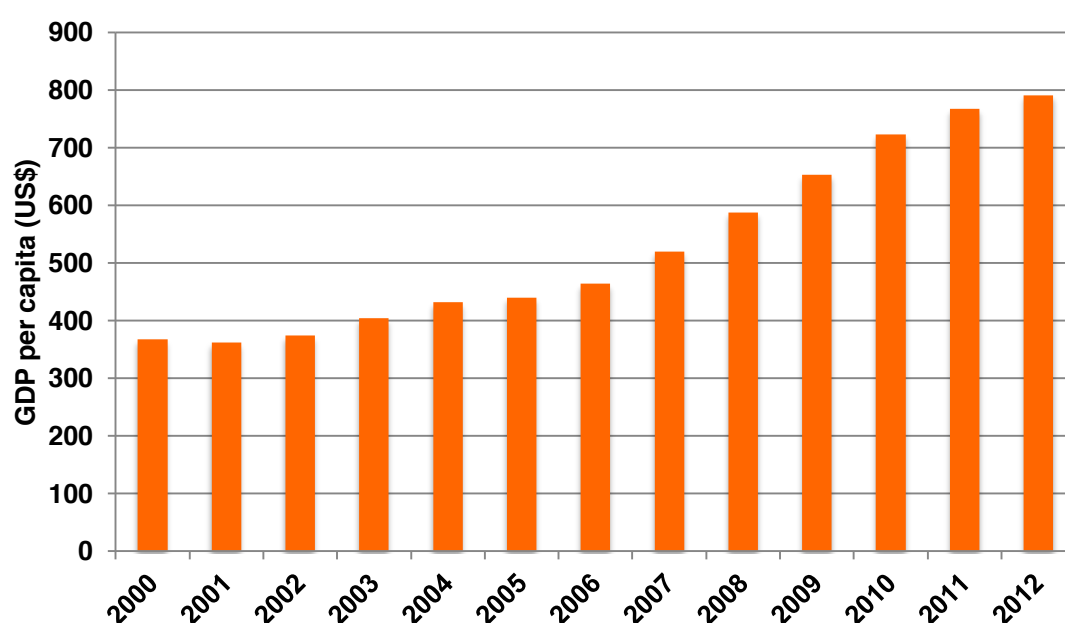
This report has been commissioned by the Australian government to provide an overview and analysis of Bangladesh's social protection system. The report does not represent the views of the Australian government but is being made public to serve as a resource for those interested in understanding social protection in Bangladesh. It is based on a comprehensive review of the available literature and a set of consultations undertaken in early 2013. It also includes analysis of the 2010 national household survey (HIES), including a series of micro-simulations. Where information is presented in the report without a reference, it is derived from the household survey analysis.

The scoping report begins by briefly describing poverty and inequality in Bangladesh. In Section 3, it examines the causes of poverty and vulnerability, adopting an approach that examines the risks and challenges experienced by people at various stages in the lifecycle. Section 4 describes and analyses Bangladesh's social protection system, while Section 5 offers some potential priority areas for reform.

2. POVERTY AND INEQUALITY IN BANGLADESH

In recent years, Bangladesh has made good progress in reducing poverty. While the national poverty rate was 49 percent in 2000, it had reduced to 31.5 percent by 2010 (BBS 2010). A range of factors has contributed to this success with the basis being strong economic growth, as indicated by Figure 2.1. GDP per capita has more than doubled in the past ten years. The main factors behind the country's economic success have been: the growth of private investment – facilitated by a stable and market-friendly environment – from 10 percent of GDP in the early 1990s to 18 percent in recent years; the growth in the garment industry; a ready supply of low-cost labour; a flexible labour market, with few restrictions on hiring and firing workers; significant increases in remittances from migrant workers; and a rapid expansion of financial services (World Bank 2008).

Figure 2.1: GDP per capita in Bangladesh, 2000-2012²



However, the fall in poverty rates should not disguise the reality that a very high proportion of the population of Bangladesh is either poor or in hardship and vulnerable to falling into poverty. Indeed, there are strong arguments that the poverty line in Bangladesh is set too low. If the poverty line were set at the normal international poverty line of \$1.25 per day, the poverty rate would increase to 43 percent (World Bank 2012b). Around 84 percent of the population was, in 2010, living under the equivalent of US\$2 per day, which many would regard as a more reasonable measure of poverty (World Bank 2012b).

Indeed, the World Bank (2012b) argues that a very high proportion of the population remains vulnerable to poverty. Recent research by the World Bank (2009; 2012a) in Pakistan and Indonesia has demonstrated that large numbers of households regularly move in and out of poverty. For instance, although in Indonesia the poverty rate in 2011 was 12 percent, around 43 percent of the population spent some time in near poverty – under BNPL x1.2 – between 2008 and 2010. Household incomes in the informal and subsistence sectors tend to

² Source: IMF World Economic Outlook Database, October 2012. See: <http://www.imf.org/external/ns/cs.aspx?id=28> <http://www.imf.org/external/ns/cs.aspx?id=28>

be volatile and small shocks – such as illness – can throw households into poverty. This is explained further in Section 3.

Box 2.1: Note on poverty measures

Poverty rates in Bangladesh are calculated using per capita equivalence scales. This means that the consumption of each person in the household is estimated as the equivalent of an adult. This has implications for poverty rates, in particular when different age groups are compared. For example, by counting each child as an adult, the poverty rates of households with children will be higher than if children were regarded as a proportion of an adult (for example, 0.5 of an adult, as is the practice in the Pacific region). When comparisons are made with other categories of the population, equivalence scales that assume each child has the same consumption as an adult generate higher poverty rates for households with children than households with adults, in particular elderly and people with disabilities. A simplistic interpretation of poverty rates for different categories of the population can lead to mistakes in policy-making.

Furthermore, the Bangladesh household survey does not assume any economies of scale, which inevitably leads to larger households appearing to be poorer than smaller households.

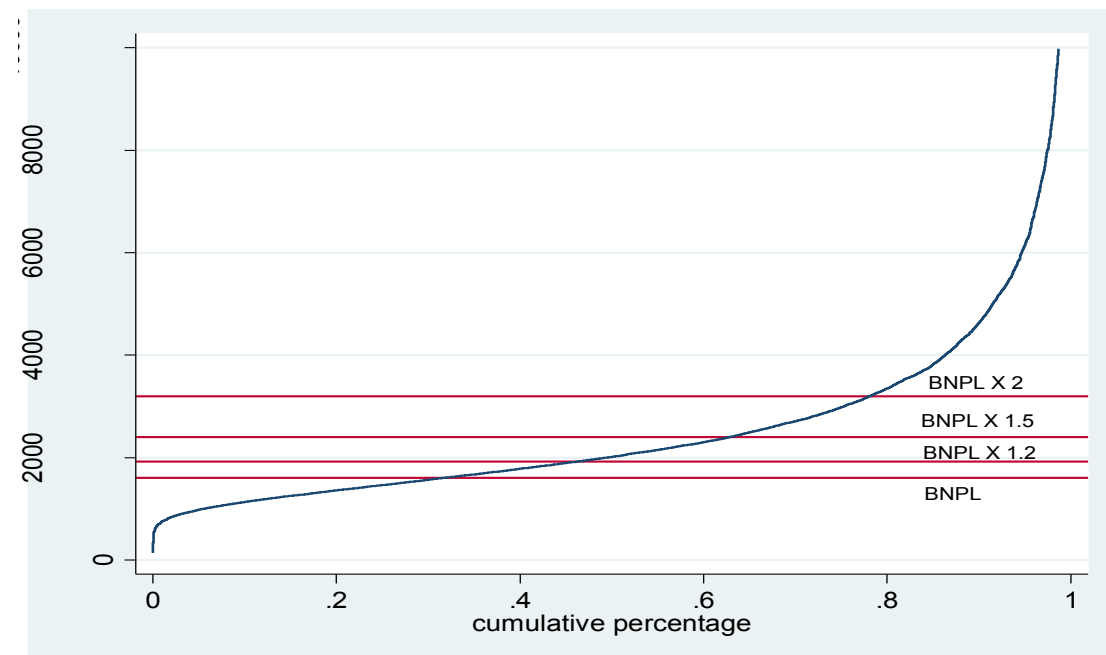
As a result of the assumptions used in the analysis of the household survey, this report will take care not to compare different demographic categories unless the results are driven by the underlying data rather than the assumptions. In the report, some alternative results will be provided in footnotes for an equivalence scale of 0.5 for children aged 0-14 years, using a poverty line of BNPL x1.2.³

It should be borne in mind that no equivalence scale or economy of scale measure is correct. It is, however, important to test the sensitivity of results to different assumptions.

Figure 2.2 indicates the continuum of household consumption in Bangladesh from the poorest to the richest household. It shows a relatively flat curve for the majority of the population, indicating that differences in per capita incomes between households are not great. In fact, a small increase of 20 percent in the Basic Needs Poverty Line (BNPL) – to BNPL x1.2 – would result in a 50 percent increase in the poverty rate. Indeed, the World Bank research from Pakistan and Indonesia suggests that households below a 50 percent increase in the BNPL – in other words, below BNPL x1.5 – should be regarded at risk of spending some time in poverty over a three to five year period.

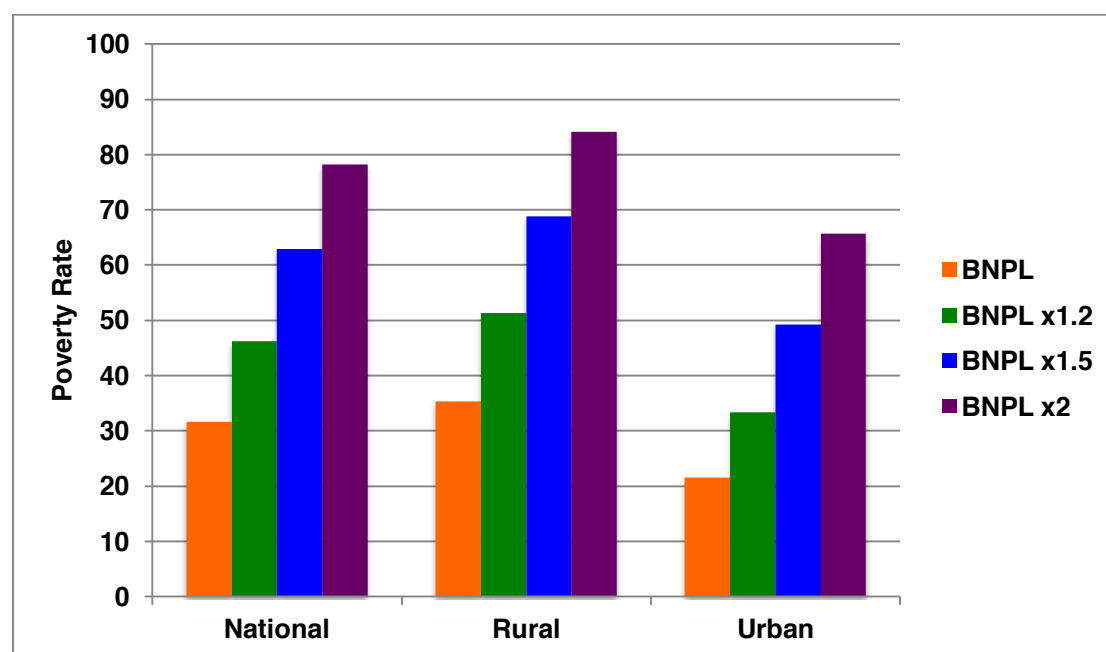
³ The poverty rate for BNPL x1.2 is provided when an equivalence scale of 0.5 is used for children as this is relatively close to the BNPL poverty rate with adult equivalent scales. The use of equivalence scales of less than adult equivalent for some population categories necessarily reduces national poverty rates.

Figure 2.2: The cumulative distribution of consumption in Bangladesh, from the poorest household to the richest



By examining the poverty rates that are generated by increases in the BNPL poverty line of 20 and 50 percent, it is possible to estimate the proportion of households that are either poor or in hardship and vulnerable to falling into poverty. Figure 2.3 indicates a national poverty rate of 46 percent using the BNPL x1.2 poverty line and 63 percent using the BNPL x1.5. Therefore, a majority of the population can be regarded as either poor or highly susceptible to falling into poverty.

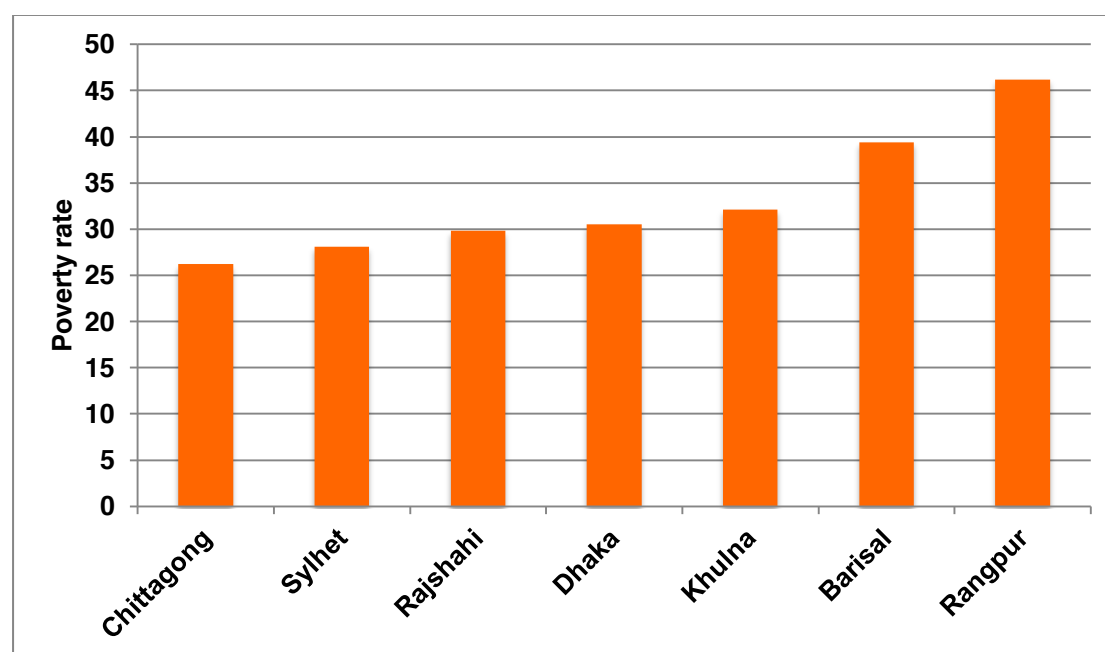
Figure 2.3: National, urban and rural poverty rates, using various poverty lines (BNPL; BNPL x1.2; BNPL x1.5; and BNPL x2)



Analysis of the household survey shows that poverty rates vary between rural and urban areas, with almost 70 percent of the rural population either poor or experiencing hardship and vulnerable to poverty. However, there is growing scepticism that poverty is, in fact, less prevalent in urban areas. Banks (2012) notes that a different measure of poverty – using Direct Calorie Intake – indicates that urban poverty rates are 10 percentage points higher than rural poverty rates.⁴ UNICEF (2010) argues that living conditions in slums – where 5 percent of the population reside – are worse than in most rural areas. High rates of continuing migration to cities are likely to exacerbate poverty in urban areas, in particular in the slums.

As Figure 2.4 indicates, levels of poverty also vary between regions of Bangladesh, essentially around an East-West economic divide (World Bank 2008). The rivers Ganges and Brahmaputra divide the country, with areas to the west of the Brahmaputra and to the south of the Ganges being less integrated to the national economy. Since 2000, the disparity between the less integrated West and the East has grown, with the eastern region benefitting from proximity to the growth poles of Dhaka and Chittagong. However, Sen and Ali (2005) note that poverty rates can disguise a more complex picture when broader aspects of wellbeing are examined. For example, while Chittagong has the lowest poverty rate, it has the second highest level of infant mortality, the second lowest levels of adult literacy and the second lowest level of life expectancy.

Figure 2.4: Poverty rates for Bangladesh's Divisions⁵



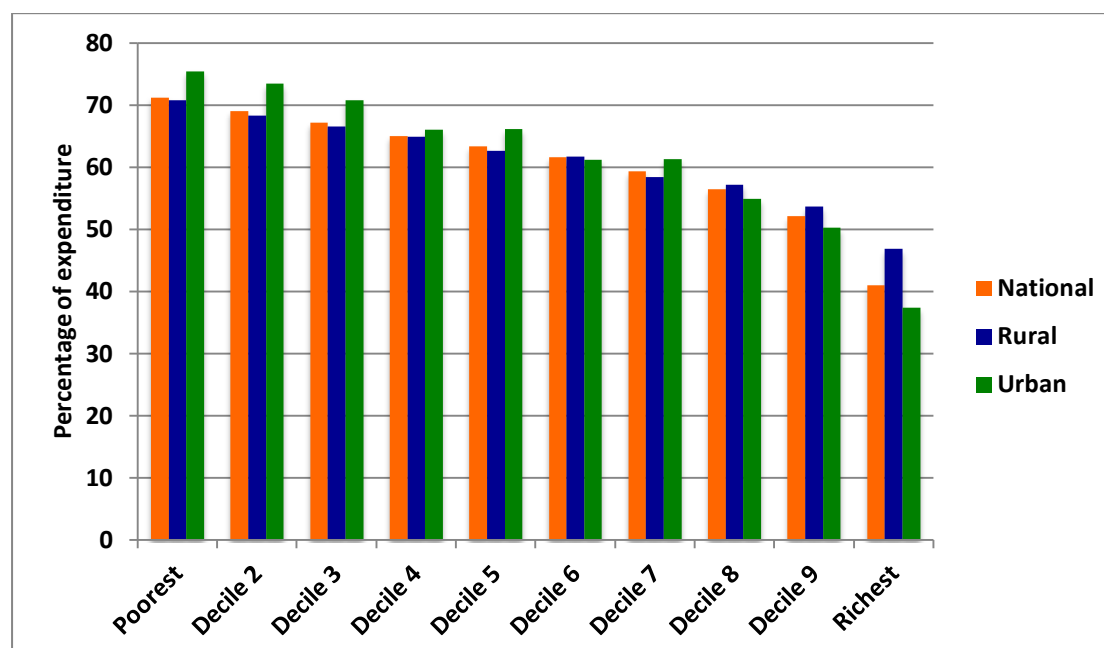
One characteristic of families living in poverty is their high proportion of expenditure on food. The expenditure of the three poorest deciles nationally on food is around 70 percent, suggesting minimal income for other essential needs (see Figure 2.5). The situation is more difficult for the urban population where expenditure on food is even higher, and reaches 82 percent for the poorest 5 percent (compared to 17.5 percent for the richest 5 percent). It is

⁴ This finding was based on an analysis of 2000 household survey data, when the household survey methodology – which uses a cost of basic needs approach – gave the urban poverty rate as 16 percent lower than the rural poverty rate.

⁵ Source: BBS (2010).

likely, furthermore, that food expenditure by the poorest is also on lower quality and less nutritious foods, which almost certainly contributes to undernutrition (see Section 3.1).

Figure 2.5: Percentage of expenditure on food by decile⁶



Therefore, despite an overall positive trend in Bangladesh of poverty reduction, social protection policy must bear in mind that national poverty rates paint only a partial picture. Over half of the population is still poor or experiencing hardship and highly vulnerable to poverty and, in certain areas of the country, the levels are even higher.

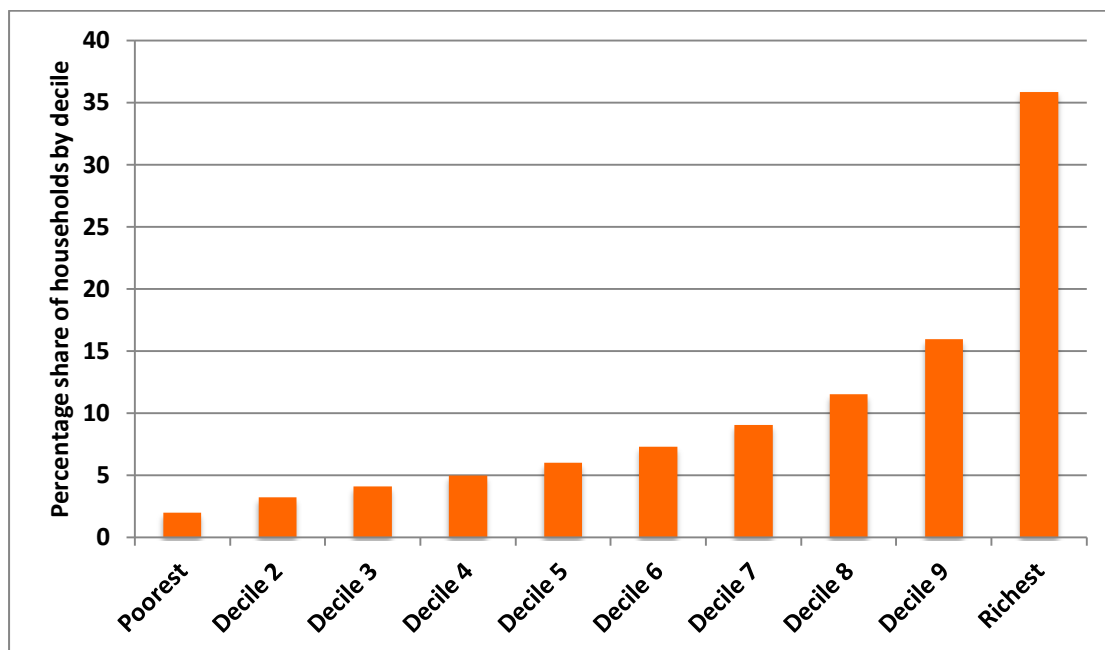
The picture of inequality in Bangladesh varies according to the measure used. When income is measured, inequality is very high with the Gini co-efficient at 0.46 (anything over 0.4 should be regarded as high inequality). Figure 2.6 shows how total income was distributed across deciles in 2010, with over 35 percent received by the richest decile of the population. In fact, BBS (2010) stresses the significant discrepancy between the poorest 5 percent of the population – who receive a mere 0.78 percent of national income – and the richest 5 percent who receive 24.6 percent. However, when expenditure is used as the measure inequality, the Gini co-efficient is much lower at 0.32 (BBS 2010).

High levels of inequality are a growing concern in developing countries. High inequality can reduce economic growth and also limit the impact that economic growth has on poverty reduction.⁷ The high level of income inequality in Bangladesh probably reflects the low levels of taxation and redistribution in the country (see Section 4.9 for more information). One positive factor for Bangladesh is that inequality does not seem to be rising: the income Gini co-efficient reduced slightly between 2005 and 2010 from 0.47 to 0.46.

⁶ Source: BBS (2010).

⁷ See UNDP (2005) and World Bank (2005).

Figure 2.6: Share of total income in each decile⁸



⁸ Source: BBS (2010).

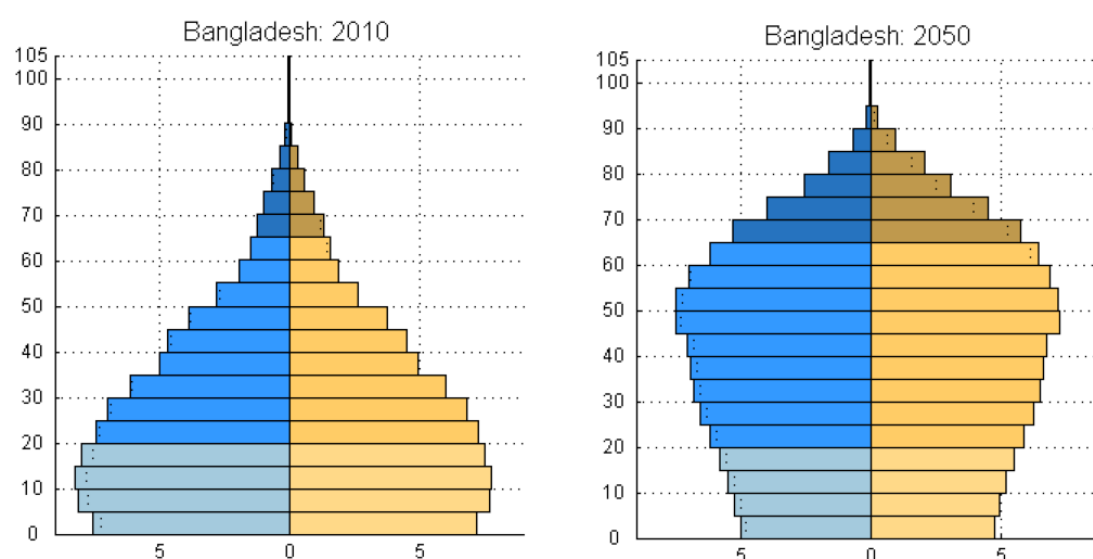
3. VULNERABILITY TO POVERTY IN BANGLADESH

Social protection aims to both tackle poverty and build resilience among individuals and families so that they are less vulnerable to falling into poverty. This section will examine the factors underlying vulnerabilities within Bangladesh. It will use the lifecycle as a framework for discussing these vulnerabilities, focusing on the challenges faced by people and families in Bangladesh at different stages of their lives. However, because people live in families, households and social networks, it should be borne in mind that a shock hitting one person at some point in their lifecycle also has implications for others with whom they have social and kinship relations, particularly for those within the same household.

The high levels of poverty in Bangladesh increase the vulnerability of people to shocks. While those who are better off may have sufficient assets to provide a buffer when a shock hits, those who are poor are in a more vulnerable position. They may well have to dispose of their assets to cover any losses or expenditures incurred, which is likely to make it more difficult for them to bounce back. If people are members of strong kinship and social networks they will be more likely to receive support from others, but many people – in particular families living in poverty – are often in social networks that are themselves too poor to provide adequate support to people in need.

Any discussion of lifecycle risks in Bangladesh needs to take into account the demographic transformations underway. The population of Bangladesh is undergoing a process of ageing. Fertility rates have fallen which means that the proportion of children in the population will fall rapidly in coming decades. At the same time, the proportion of people of working age will grow, which should result in an economic dividend. However, the elderly population will also increase. Figure 3.1 indicates the changes in the population pyramids between 2010 and 2050.

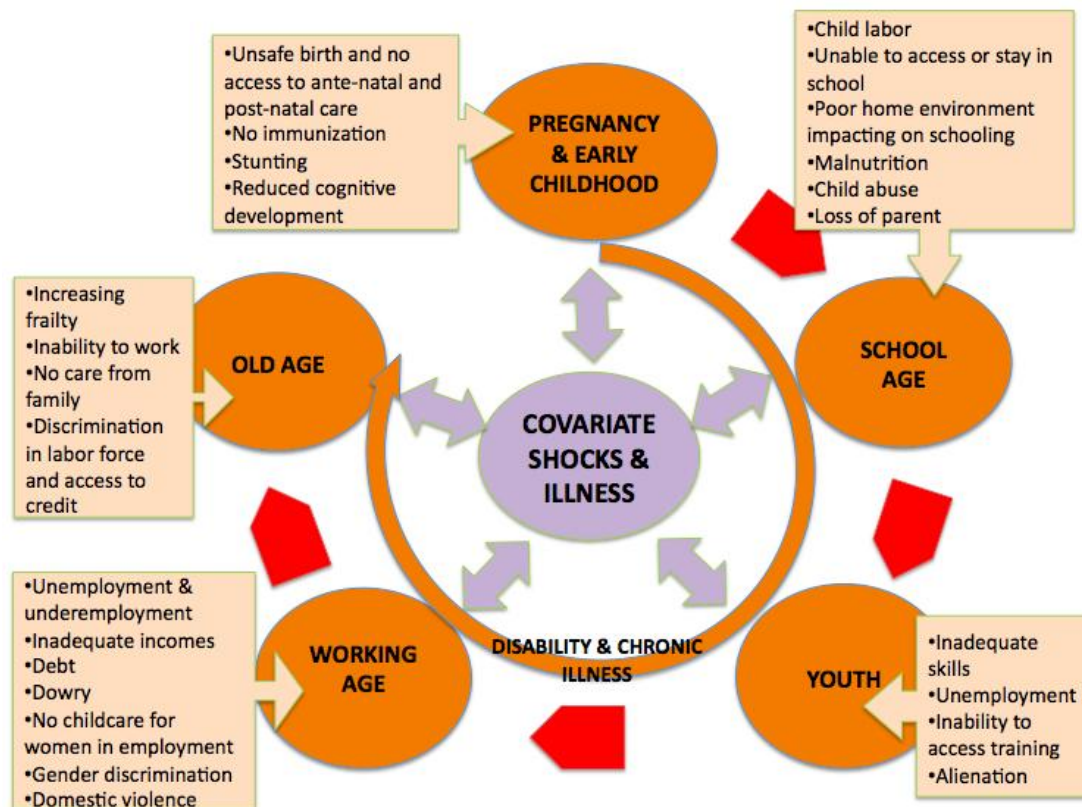
Figure 3.1: Bangladesh population pyramids for 2010 and 2050⁹



⁹ Source: UN-DESA World Population Database at: http://esa.un.org/unpd/wpp/unpp/panel_indicators.htm

Figure 3.2 summarizes the risks faced by families in Bangladesh across the lifecycle, from pregnancy and early childhood through to old age. In addition, there are shocks that can hit people at any time of their lives such as natural disasters and illness. These challenges are discussed in the following sections as a prelude to examining Bangladesh's social protection system and potential areas for policy reform.

Figure 3.2: Risks across the lifecycle



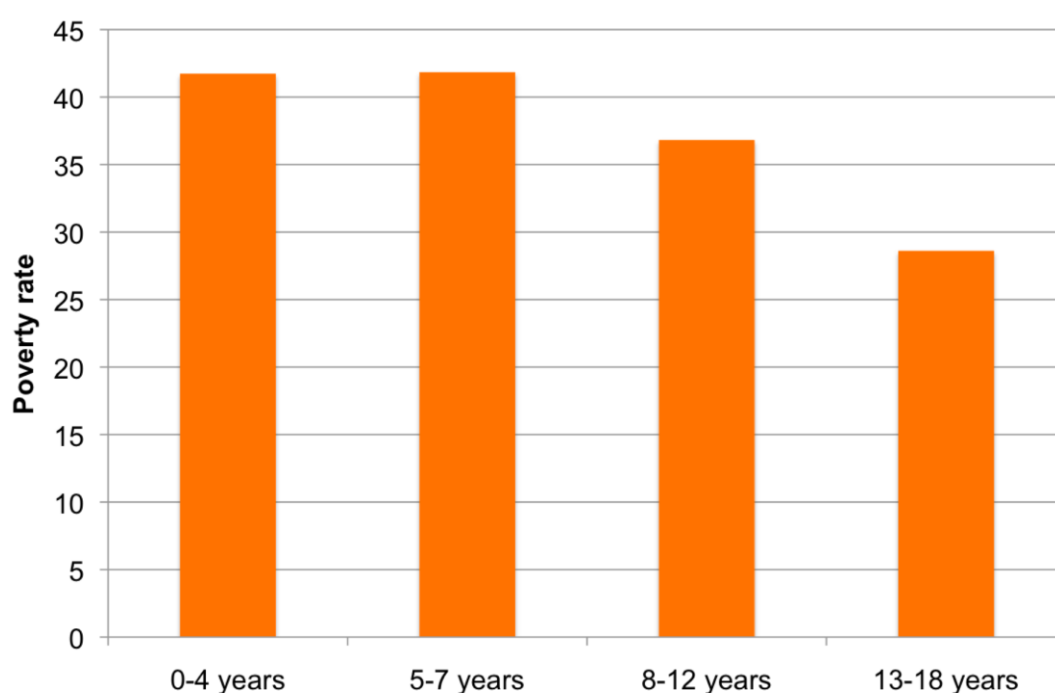
3.1. Pregnancy and early childhood

The risks faced by children begin in the womb, especially if their mothers are unable to access an adequate diet. Indeed, 40 percent of rural families are unable to afford a minimum-cost nutritious diet (Sabina 2012) and it is common for women to eat less well than their husbands. Children – and mothers – are also put at risk when they are unable to receive adequate pre-natal care or give birth with the help of medical personnel. Only 26 percent of women have at least 4 antenatal visits while only 32 percent give birth with the assistance of someone with medical training¹⁰ (NIPRT *et al.* 2013). Under-five mortality is high at 53 children per 1000 live births, although it has improved from 94 per 1000 in the late 1990s (NIPRT *et al.* 2013). Around 86 percent of young children receive a full complement of vaccinations, with only 2 percent receiving no vaccinations at all (NIPRT *et al.* 2013).

¹⁰ Post-natal care from a medically trained provider within 2 days of giving birth is received by only 27 percent of women (NIPRT *et al.* 2013)

As Figure 3.3 indicates, poverty rates in households with children aged 0-4 years are – at 41.7 percent¹¹ – much higher than national poverty rates, indicating the challenges and additional expenses caused by having young children, in particular if mothers are unable to work. Indeed, some women – including many in the garment industry – have to give up work once they have children. Around 72 percent of households with children aged 0-4 years could be regarded as poor or vulnerable to poverty, using a poverty line set at BNPL x1.5.

Figure 3.3: Poverty rates of households with children of varying ages¹²



A high proportion of young children suffer from undernutrition, which impacts on their cognitive development, affecting them throughout their whole lives. However, progress in tackling undernutrition has been encouraging. While stunting rates, for example, were at 68 percent in 1990, they had fallen to 41 percent by 2011 (Sabina 2012; NIPRT *et al.* 2013). Figure 3.4 shows the more recent situation, progress on stunting and underweight children continuing between 2004 and 2011. Indeed, the World Bank (2013) argues that Bangladesh has made “remarkable” progress in reducing stunting. However, it is evident that the challenge remains significant, especially in rural areas where stunting levels – at 43 percent – are significantly higher than in urban areas (at 36 percent).

The causes of stunting are complex but, in the past 20 years, there appears to have been a strong correlation between poverty reduction and improved nutrition, suggesting that higher incomes are helping reduce undernutrition.¹³ This is further underlined by the fact

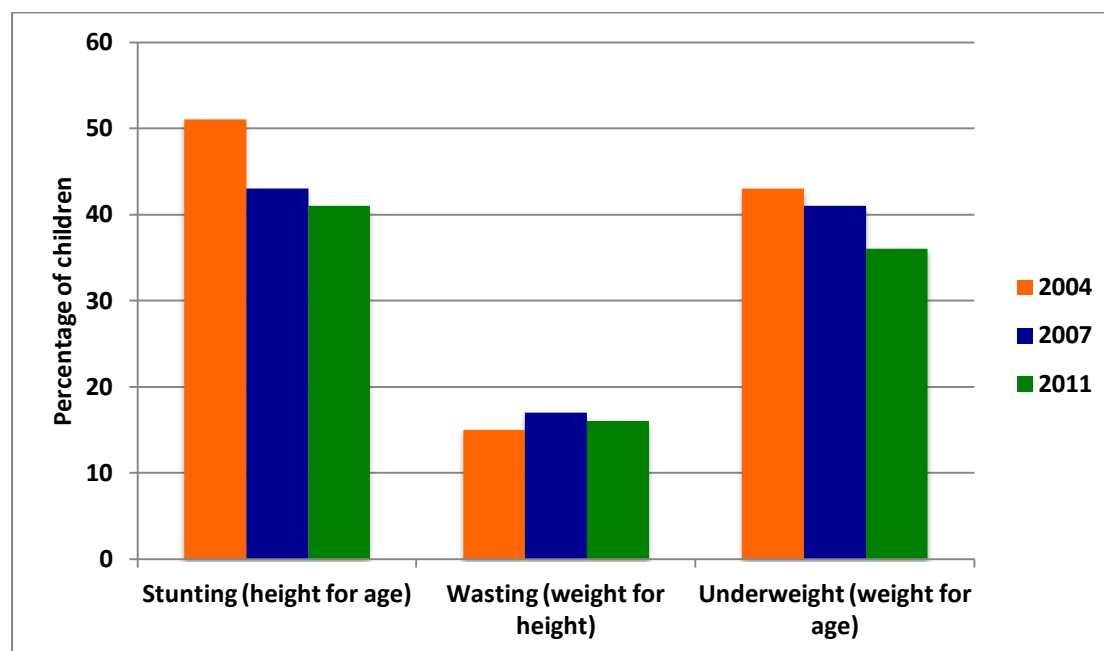
¹¹ With an equivalence scale of 0.5 for children aged 0-14, the national BNPL x1.2 poverty rate would be 28.8 percent and for households with children aged 0-4 years it would be 35 percent. This indicates that the finding that households with young children are poorer than the norm is robust.

¹² These figures use adult equivalent equivalence scales.

¹³ There appears to have been little progress in tackling wasting. However, there are indications that wasting rates are related to seasonality and may reflect challenges in areas such as sanitation and health services (Helen Keller International: undated).

that the highest rates of stunting are among poor families¹⁴ (NIPRT et al. 2013). Low incomes are likely to impact negatively on nutrition because they restrict dietary options and increase the proportion of rice in the diet (c.f. World Bank 2013). By continuing to tackle poverty and improve family incomes, Bangladesh may continue to make progress in improving nutrition among young children. However, it will be important to ensure that actions to improve nutrition are multi-sectoral, given the multiple factors that cause undernutrition.

Figure 3.5: Progress in reducing undernutrition in Bangladesh (2004-11)¹⁵



3.2. School age

As children grow, increasingly the greatest challenge they face is attending school. In recent years, school enrolment has increased. For example, school enrolment among poor children aged 6-10 years increased from 72 percent in 2005 to 78 percent in 2010, while among those aged 11-15 it increased from 54 percent to 70 percent¹⁶ (BBS 2010). Enrolment among girls is higher than for boys in both age groups. The increase in enrolment is an encouraging trend but it is evident that much still needs to be done, in particular in upper primary and secondary schools.

While there is a range of reasons for children being out of school, it is likely that poverty is a significant cause. Paradoxically, however, as Figure 3.3 indicates, as children grow older and school enrolment falls, the household poverty rate falls. Yet, this is likely to be misleading since the lower poverty rates are probably due to an increase in child labour among older children. Around 17.5 percent of children aged 5-17 years are child labourers, with 24

¹⁴ The Demographic and Health Survey indicates that the stunting rate in the poorest quintile is 54 percent and 26 percent in the richest quintile (NIPRT et al. 2013). However, wealth in the DHS is measured using an asset index, which will have a relatively weak correlation with income and expenditure. So, it is not possible to know the actual stunting rate among expenditure (income) quintiles and it is possible that stunting rates among the better off are lower than those found in the DHS.

¹⁵ NIPRT et al (2013).

¹⁶ Overall enrolment rates among children aged 6-10 years was 84.8 percent in 2010, compared to 80.4 percent in 2005 (BBS 2010).

percent of boys and 10 percent of girls (Ali 2006).¹⁷ Among older children, the proportion will be much higher. The majority of child labourers are from poorer households (Ali 2006). The main reduction in child labourers since the mid-1990s has been among girls, which may reflect the impact of the introduction of the Female Secondary Stipend programme and suggests that poverty does drive child labour.

It is likely that some adolescent girls come under pressure to care for younger siblings and, as a result, leave school. The absence of childcare facilities means that, if women want to return to work after giving birth, they will have to find others to care for their children. In many countries, old age pensions can enable grandparents to take on this role but, in Bangladesh, the old age pension system is inadequate. As a result, this escape valve for adolescent girls may not function particularly well.

The growing migration to cities and overseas is likely to impact on children's wellbeing.¹⁸ Migration can benefit families economically if migrants are able to earn enough to send home remittances. But remittances can be irregular and it is likely that many families left behind do not receive any support. This can place an increasing burden on children and may encourage some to enter the labour market. Seeley and Gardner (2005) note that additional pressure can be placed on young boys who may become the public face of the family when their parents are away.

3.3. Young people

As young people move into the labour market, the challenge they face is not so much unemployment as underemployment. Nonetheless, unemployment rates among those aged 15-24 are significantly higher than for the rest of the population. Official figures give a national unemployment rate of 5.1 percent, while youth unemployment is at 9.5 percent.¹⁹ However, other estimates suggest significantly higher levels of unemployment, with some arguing that the true number of unemployed is 30 million, with fears that it may increase. For young people, finding a job is particularly challenging. Around 2.7 million young people enter the labour market every year, but only 0.7 million are able to find employment (Islam 2012).

Part of the challenge faced by young people is a lack of skills. Many do not gain sufficient good quality secondary education and there is not enough vocational training available to compensate. Indeed, businesses complain that insufficient skilled labour is a major impediment to growth, while also discouraging garment companies from locating outside Dhaka (World Bank 2012b). However, providing vocational education alone is not the solution; in the long-term, it is probably more important to ensure that children gain an adequate secondary education to prepare them for the labour market.

The reality for most young people from poor families is that they end up among the ranks of the rural underemployed. If young people do not gain the skills they need, there is a danger that Bangladesh will squander the demographic dividend it should enjoy as a result of a large

¹⁷ Under a strict ILO definition of child labour, around 8 percent of children aged 5-17 years would be regarded as child labourers (11 percent of boys and 8 percent of girls). De Rooy and Islam (2010) indicate that 3.55 million children aged 7-14 years were in employment in 2005/06.

¹⁸ Orphanhood is not a significant problem in Bangladesh, as around 4 percent of children aged 0-14 years are orphans (De Rooy and Islam 2010). The impact of orphanhood on children is not known.

¹⁹ Sources: Islam (2012) and <http://www.indexmundi.com/g/r.aspx?c=bg&v=2229>

labour force and low dependency ratios. It is an area that requires much greater research so that the causes are understood and effective solutions are provided.

3.4. The working age population

The challenge of underemployment faced by young people is reflected in the rest of the working age population, with 9 percent of the employed working less than 20 hours per week (World Bank 2008). As the World Bank (2012b) notes, Bangladesh's great competitive advantage is its large pool of underemployed labour, yet this is currently underutilized. However, the challenge facing the underemployed in Bangladesh is not just an inadequate skill-base. The business environment also needs to be improved if jobs are to be created; for example, if Bangladesh could improve its business environment half way to the level of India's, its trade could increase by 38 percent (World Bank 2012b).

Nonetheless, the challenges faced by the working age population are diverse. Many suffer from structural disadvantages that are extremely difficult to overcome. These include a lack of access to land or residence in areas – such as the western region or the Chars - where resources and/or markets are limited (World Bank 2008; Quisumbing 2007). Low levels of education and literacy compound the disadvantages faced by such people. Many – indeed a third of the labour force – have no option but to engage in low-paid daily wage labour, mainly in the agricultural sector, with most experiencing absolute poverty²⁰ (World Bank 2008). Without assistance from social protection, these families will be unable to break out of the intergenerational cycle of poverty.

International remittances are becoming a significant component of the economy, reaching 10 percent of GDP in 2011, an increase from 4 percent in 2001 (World Bank 2012b). Most migrants are young, married males with moderate education. Only 15 percent of migrants are female. The poor are less able to migrate although there are indications that the number of migrants from poor families is increasing.²¹ Yet, as Figure 3.5 indicates, the proportion of poor families with young children benefiting from remittances is tiny. Furthermore, 82 percent of migrants come from eastern Bangladesh, the area of the country already enjoying economic advantages. Even when the poor do migrate, their remittances are lower than those with higher skills: a migrant with secondary education remits Tk.30,000 per year more than someone without.

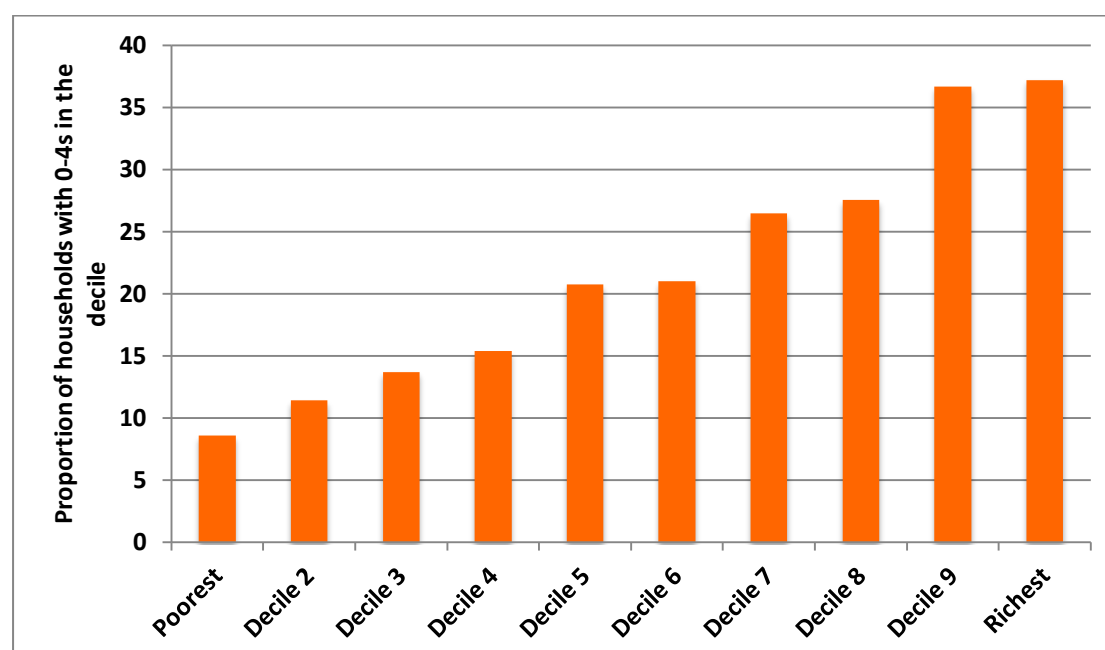
Family wellbeing can deteriorate significantly if breadwinners suffer shocks, in particular illness. Quisumbing (2007) reports that health shocks are the most common challenge faced by households and, in a study by Foley and Chowdury (undated), 90 percent of households identified poor health as the main cause of economic difficulties.²² Illness implies both a loss of earnings and a need to pay for treatment although there are strong indications that many poor households forgo treatment, as it is too costly (Quisumbing 2007). Dowry payments – which are widespread though officially illegal – and associated marriage expenses are another significant shock that can hit families hard.

²⁰ The World Bank (2008) argued that half lived in absolute poverty. However, this was based on a static rather than dynamic measure of poverty so, in reality, the majority should be considered as in absolute poverty.

²¹ In 1988, the concentration coefficient of remittance income was 0.8, indicating that most migrants were from high-income groups. By 2004, the coefficient had reduced to 0.56 indicating that more low-income families are benefitting (World Bank 2012b).

²² See also Davis (2004).

Figure 3.5: The proportion of households with children aged 0-4 years benefitting from remittances, by wealth decile²³



Women face particular disadvantages due to gender discrimination. Female labour force participation is low – at 10 percent – compared to 80 percent for men (World Bank 2008). This may reflect traditional attitudes to women and their weak bargaining power within households. Wages for female workers are also low and they can earn up to 60 percent less than men for the same work (World Bank 2008). The ability of young mothers to enter and remain in the labour force is constrained by childcare responsibilities, which may help explain the high levels of poverty among families with young children. Although garment factories are providing significant employment for women, many have to leave once they give birth. As noted above, an inadequate old age pension system means that – unlike in some other countries – grandparents find it more challenging to provide childcare, as they themselves probably have to forgo income.

Households headed by divorced or single women are particularly vulnerable to living in poverty (World Bank 2008). In 2005, while poverty rates in households headed by married women – who are likely to have husbands providing remittances – were only 16 percent, the rate among households headed by divorced or separated women was 48 percent while those headed by widows had a poverty rate of 37 percent. To a large extent, the higher poverty rates of households headed by divorced, separated or single women are explained by a lack of labour capacity. However, many may also have been discriminated against through inheritance practices and by rising social exclusion.

An inadequate social protection system means that families with children also have to provide care and support to those elderly people and people with disabilities who are in need of assistance. In effect, this is an informal tax on working families that limits their ability to invest in productive activities while reducing the support they can give to their own children. It is particularly challenging for poor families. In other developing countries, old age

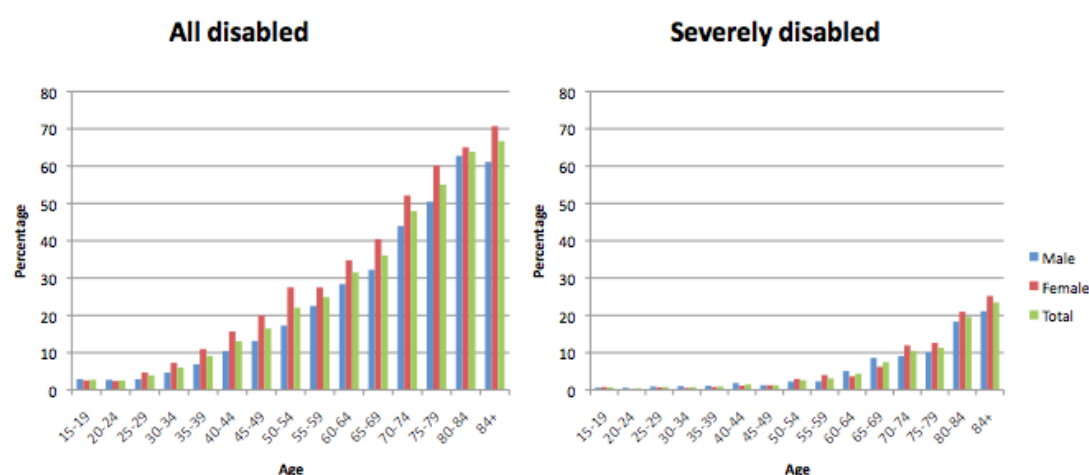
²³ Source: 2010 household survey.

pensions and disability benefits paid at reasonable levels are able to reduce demands on families with children, with significant benefits for working families.²⁴

3.5. Disability

Disability can occur at any stage of life. Around 8.9 percent of the population – 8 percent of males and 9.3 percent of females – has some form of disability, although those who could be regarded as severely disabled comprise 1.5 percent.²⁵ As Figure 3.6 indicates, disability prevalence varies over the life course, with a significant increase from around age 50. By far the highest rates of disability are among older people. Prevalence is also higher among women than among men. A significant proportion of households – 31 percent – have a disabled member while 6.3 percent have someone with a severe disability.

Figure 3.6: Disability prevalence by age group and gender²⁶



However, the numbers of people with disabilities in each age group shows a different pattern, as seen in Figure 3.7. The highest numbers of disabled people are among those aged between 40 and 65 years, at an age when they would hope to engage actively in the labour market. Indeed the number of people with disabilities triples between ages 20-24 years and 50-54 years, with women significantly more affected. However, the number of severely disabled people is highest among the elderly aged between 60 and 75 years.

The 2010 household survey data does not, at first sight, indicate a strong relationship between households with a disabled member and poverty. The poverty rate of households with disabled members is similar to the national poverty rate, at 31.5 percent,²⁷ although 63 percent should be regarded as poor or vulnerable to poverty.²⁸ However, the poverty rate of households with a severely disabled member is higher – at 34.7 percent – suggesting that disability can place a greater burden on households (the poverty rate for households without a person with a disability is 29 percent). Indeed, it should be borne in mind that the

²⁴ See Neves et al. (2009) and Bukuluki and Watson (2012).

²⁵ These figures are calculated from the 2010 household survey. A person with a disability is anyone who reports “some difficulty” with one area of capability. A person with a severe disability is anyone who reports “significant difficulty” in an area of capability.

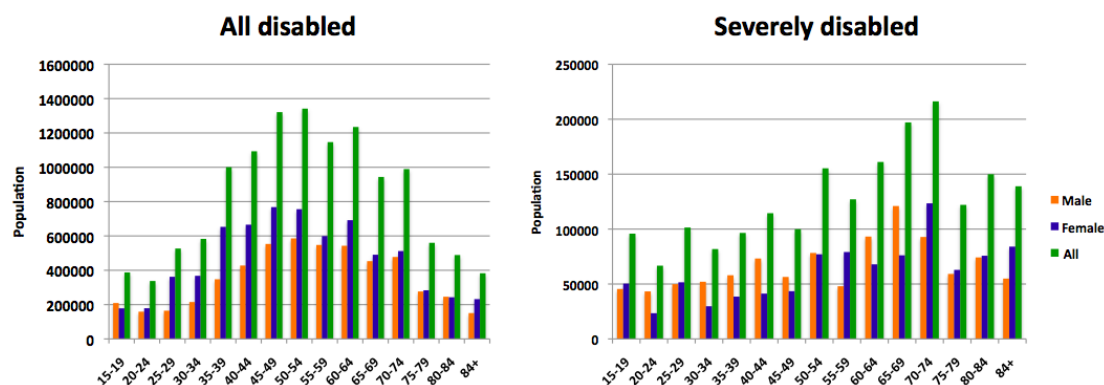
²⁶ Source: 2010 National Household Survey.

²⁷ The poverty rate of households with a person with moderate disability is 28.2 percent and 29 percent for households without someone with a disability.

²⁸ This poverty rate is based on the BNPL x1.5 poverty line.

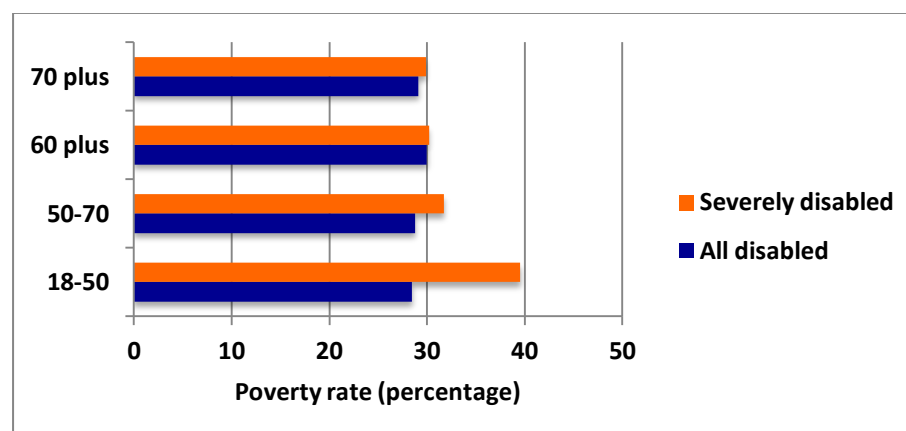
household survey does not take into account the additional costs incurred by people with disabilities, which would increase poverty rates further.

Figure 3.7: Numbers of people with a disability in each age group²⁹



Furthermore, poverty rates vary between different age groups, but only among the severely disabled, rather than among all disabled (see Figure 3.8). It is evident that if a working age adult is disabled, it has a significant impact on the household. Indeed, the BNPL poverty rates for this group reach almost 40 percent, significantly higher than among other older age groups. The latter may be more likely to be in receipt of support.

Figure 3.8: Poverty rates of households with people with disabilities, by age group³⁰



Foley and Chowdhury (undated) describe how becoming disabled during working age has significant repercussions for families.³¹ They found that 87 percent of those becoming disabled left employment within one year. As people lose employment, their incomes are slashed. Furthermore, 90 percent of carers – mainly their wives – had to spend more time

²⁹ Source: 2010 National Household Survey.

³⁰ The results here use per capita equivalence scales and data from the 2010 HIES. Using per capita equivalence scales reduces the poverty rates of households with disabled older people when compared to the national population and younger people with disabilities. So, if an equivalence scale of 0.5 for children aged 0-14 is used, the national poverty rate – at BNPL x1.2 – is 28.8 percent. The poverty rate for households with people with severe disabilities aged 18-50 years is 41.3 percent; for 50-70 years it is 36.9 percent; for 60+ years it is 35 percent; and for 70+ it is 35.7 percent. So, using these assumptions, adults with severe disabilities of all ages are poorer than the national norm.

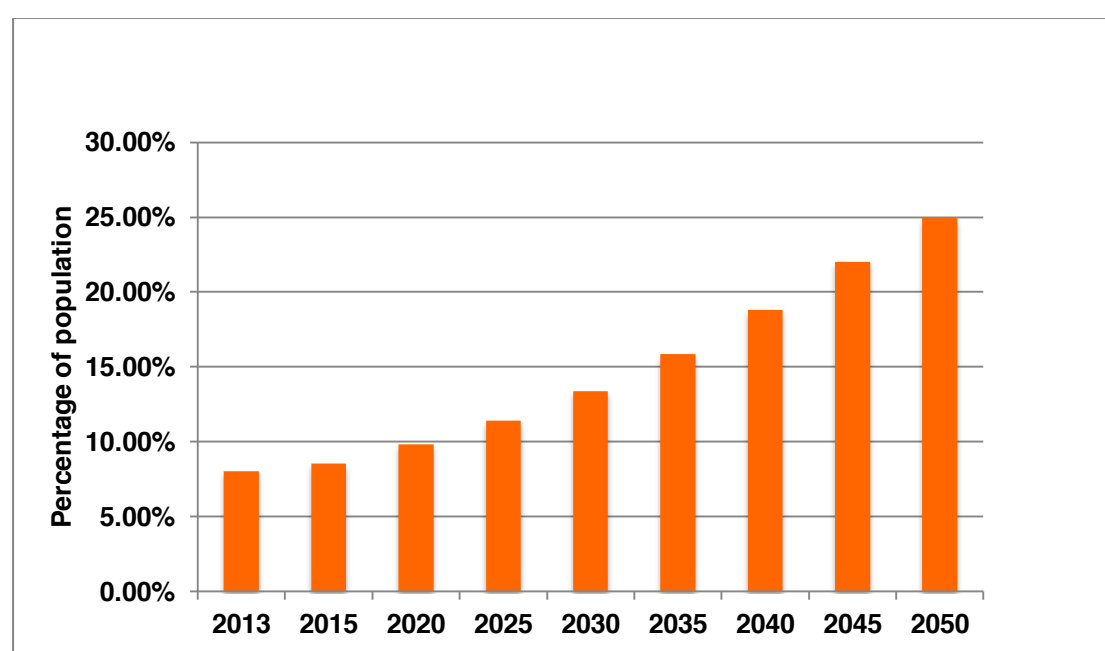
³¹ The study by Foley and Chowdhury (undated) took place in Chuadanga. See also Chowdhury (2006).

caring for their husbands, thereby reducing their own ability to gain an income. Around 26 percent had to forgo 15 hours work a week to care for their husbands and 28 percent gave up 26 hours. The income loss can be considerable and they also face significant health costs. However, a male becoming disabled results in a loss of earnings four times greater than when a woman becomes disabled, reflecting gender differences in labour market engagement. Presumably, though, if a woman is a breadwinner, the impacts on households will be similar to the loss of a male breadwinner (assuming the male spouse provides care).

3.6. Old Age

Demographic changes underway in Bangladesh mean that the population is gradually ageing. Currently, around 8 percent of the population is over 60 years and, as Figure 3.9 indicates, this will increase significantly in the coming decades, reaching almost 14 percent by 2030 and 25 percent by 2050.

Figure 3.9: Proportion of the population aged 60 years and over³²



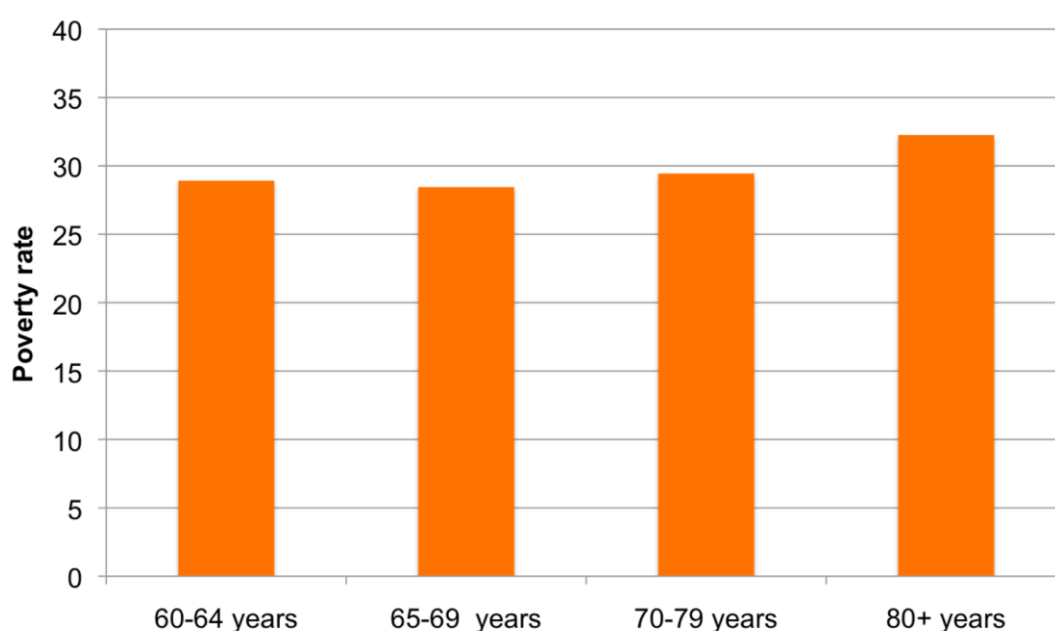
Using per capita equivalence scales, the poverty rate of households with older people is 29.5 percent, somewhat less than the national poverty rate. However, with an equivalence scale of 0.5 for children, the poverty rate of households with over-60s is 2.5 percentage points higher than the national poverty rate, suggesting that old age may well be associated with greater poverty.³³ Indeed, using an alternative data set, Quisumbing (2007) found that having someone aged 55 or over in the household was a significant predictor of chronic poverty.

³² Proportions of older people are based on the 2010 household survey, with projections to the future taken from UNDESA's World Population Database at: http://esa.un.org/unpd/wpp/unpp/panel_indicators.htm

³³ Using an equivalence scale of 0.5 for children aged 0-14 years and a poverty line equal to BNPL x1.2, households with over-60s have a poverty rate of 31.4 percent while the national poverty rate is 28.8 percent.

In the absence of an effective old age pension system – see Section 4 for more details – many older people in Bangladesh continue to work, but often with insecure and vulnerable livelihoods. Older people can face discrimination in the labour market. Indeed, older people are often denied access to micro-credit. A survey by HelpAge International (2008) found that only 19 percent of older people were able to access credit, compared to an average adult participation rate among Bangladesh’s poor of 45 percent. As the elderly become increasingly frail and disabled – see Figure 3.6 – work becomes less of an option, while costs – in particular for health care – can rise, which may explain why poverty rates increase as older people age, in particular for those above 80 years (see Figure 3.10). They become more dependent on their children for support, which, if not forthcoming, can place them in a very disadvantageous position.

Figure 3.10: Poverty rates of older people of different age groups

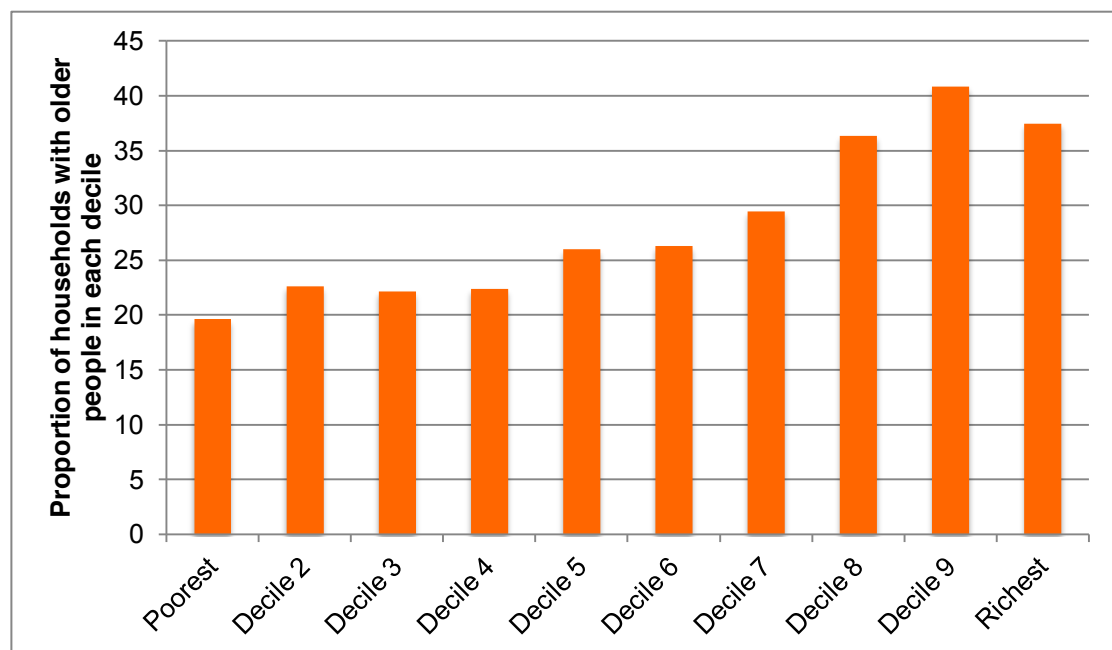


Women are more vulnerable than men in old age. Only 48 percent are married compared to 92 percent of older men (Biplob 2010). They are also less likely to be in paid labour. As a result, women in old age have poverty rates that are 15 percent higher than those of older men.³⁴ Women are in greater need of support from their kin than men and are more vulnerable when this is not available.

There are signs that traditional social structures are breaking down, meaning that increasing numbers of older people are without support (Biplob 2010). This is more likely to happen to older people whose own kin are poor. The migration of younger people to urban areas and overseas has resulted in many older people losing care support from close kin, while many have increasing care responsibilities for the children of migrants. Erb (2011) found that remittances are more reliable from migrants from within Bangladesh rather than from those who travel overseas, since the latter are likely to have to pay for additional expenses such as airfares. As Figure 3.11 indicates, only a minority of older people benefit from remittances, with an even smaller proportion among the poorest.

³⁴ The poverty rate of women over 60 years was 30.2 percent in 2010 and for men 26.3 percent (using adult equivalent scales). The poverty gap among households with older men was 8.1 and 6.5 for older women.

Figure 3.11: Proportion of households with older people in receipt of remittances in each wealth decile



The growth in the elderly population is likely to bring increasing challenges to Bangladesh. On the one hand, an epidemiological transition is already taking place, with non-communicable diseases becoming more prevalent. This will require significant changes to the health system and will also lead to large increases in health spending. Furthermore, a robust system of income security in old age needs to be established, which will require a mix of tax-financed and contributory pensions. The latter, in particular, will enable younger people to prepare for a future in which their ability to depend on others will be limited. An effective contributory pension system could also provide significant investment capital that could help drive the economy.

3.7. Covariate shocks

Bangladesh is particularly liable to natural shocks, especially floods and cyclones. These can cause significant harm to livelihoods pushing large numbers of people into poverty (World Bank 2008; Quisumbing 2007). Bangladesh is also prone to economic shocks. For example, the World Bank (2008) estimated that the steep rise in food prices in 2008 probably negated some of the reduction in poverty achieved between 2005 and 2008. Improvements in disaster response and a more effective social protection system could enable those hit by disasters to bounce back more quickly, as they may not have depleted their assets as much as they would when only a poorly functioning social protection system is in place. However, climate change is likely to increase Bangladesh's exposure to natural shocks in the coming decades.

3.8. Overview of poverty and vulnerability to shocks

The proportion of Bangladeshi families that are poor or vulnerable to poverty is significantly higher than the proportion indicated by the national poverty rate of 31.5 percent. The

majority of the population is in danger of falling into poverty as the result of a shock, while many families find it difficult to climb out of poverty. A study in the 1990s indicated that the average family lost around 20 percent of income per year as a result of crises (Rahman and Choudhury 2012).

Particular categories of the population face specific challenges related to their stage in the lifecycle. Undernutrition among young children is still at worryingly high levels, although this is a problem shared with many countries in Asia, even those with stronger economies than Bangladesh. Too many children are unable to access a good quality education, in particular at secondary school. Inadequate skills mean that many young people are unable to gain sufficient income and, instead, are forced into lives characterised by unemployment and underemployment. When disability and ill health hits breadwinners, it can throw families into extreme poverty, with little hope of escape. The discrimination experienced by women means that they cannot enjoy the full benefits of employment, and there is insufficient support for young mothers who want – and need – to work. The elderly are particularly vulnerable, due to growing frailties as they age combined with weakening social support systems.

The high levels of poverty in Bangladesh and the vulnerabilities of many categories of the population mean that an effective social protection system could play an important role in tackling poverty and building resilience. The next section will examine Bangladesh's current social protection system, the challenges it faces, and potential areas of reform.

4. BANGLADESH'S SOCIAL PROTECTION SYSTEM

Since independence, Bangladesh's social protection system has been gradually developing. Rahman *et al* (2011) argues that around 2.5 percent of GDP is invested in social protection, which would make Bangladesh one of the highest spending low-income countries. However, as discussed below, this estimate of expenditure could be considered to be an overestimate since it is based on a very broad definition of social protection. Around 25 percent of households are in receipt of at least one social protection benefit, with a strong bias to rural areas, where 30 percent of households benefit, compared to only 9 percent in urban areas.

This section will describe and assess Bangladesh's social protection system. It will begin by describing its evolution and provide an overview of the current system. This will be followed by an assessment of its impact and cost-effectiveness. The targeting performance, administrative systems and governance system will then be considered. Finally, current government policy on social protection, the political economy of social protection and development partner engagement will be described. The subsequent section will examine potential options for reform to the current social protection system.

This discussion will use the following definition of social protection: "Publicly funded initiatives that provide regular and predictable cash or in-kind transfers to individuals, households and communities to reduce poverty and vulnerability and foster resilience and empowerment."³⁵ Therefore, many initiatives often considered to be social protection within Bangladesh will not be discussed.

4.1. Evolution of Bangladesh's social protection system

Bangladesh has a long history of formal social protection, which, in part, has shaped the nature of the current social protection system. Davis (2004) notes that, as far back as the pre-colonial period, systems were in place to provide famine relief. During the colonial period, workfare came to be seen as an acceptable response to famine relief as it was regarded as less likely to encourage laziness and dependence.

This same fear of creating dependency on the state has imbued the development of social policy post-independence and, as Davis (2004) argues, continues up to the present. At independence, the main social protection scheme in place was the civil service pension.³⁶ It was complemented by a Provident Fund that acted as a savings vehicle for government and formal sector employees, providing them with a lump sum on retirement.³⁷

However, in response to the 1974 famine and floods in the 1980s, new schemes were developed for poor families that were badly hit by the crises (Rahman and Choudhury 2012). The schemes were mainly public works and other food aid programmes, making use of foreign assistance. In the 1990s the government began to introduce schemes that addressed risks across the lifecycle, such as school stipend programmes and allowances for the elderly, people with disabilities, and widows. During the 1990s, there was also significant investment by international development partners in NGO programmes, providing a range of social services, including social transfers. BRAC has become the most notable provider of these services.

³⁵ The definition is taken from AusAID (2012).

³⁶ See: Miyan (undated)

³⁷ See: Mahmood et al. (2008) and Alam (2012).

Over the past decade, social protection schemes – when understood broadly – have continued to grow along a number of trajectories. These include:

- A continuing commitment to public works programmes, such as Food for Work and the Employment Generation Scheme;
- Continuing investment in food transfer programmes such as Vulnerable Group Feeding and Vulnerable Group Development, including the introduction of the Open Market Sales scheme which sells rice at a reduced price;
- An expansion in lifecycle social transfer schemes, in particular stipends for school children and allowances for vulnerable categories of the population;
- Continuing donor support for programmes outside government that provide social services, including using social transfers to stimulate micro-enterprises among poor families.

In addition, the Civil Service Pension has continued to receive strong support from government. There has also been a gradual growth in the proportion of transfers provided as cash rather than food, although cash is mainly provided through the lifecycle programmes. By the mid-2000s, foreign food aid was withdrawn, being replaced by food transfers funded from taxation. There has also been a significant increase in small schemes that include some element of social protection among both NGOs and government.

4.2. Overview of Bangladesh's current social protection system

Bangladesh's current social protection system is complex. According to the 2010 household survey, around 25 percent of households are in receipt of at least one social protection benefit (BBS 2010). In 2011, Rahman *et al.* (2011) found 54 programmes that they would classify as social protection. However, most of these programmes are very small. Furthermore the definition used by Rahman *et al.* (2011) for social protection was very broad. It included a range of livelihoods programmes and also food transfers that are short-term disaster responses, rather than social protection (such as Vulnerable Group Feeding, Test Relief and Gratuitous Relief).

When trying to understand the main parameters of Bangladesh's social protection system, it is helpful to examine only the larger schemes that conform to a tighter understanding of social protection based on the definition used in this report, in particular those that are *regular and predictable transfers for individuals, families and households*. This means that the large but short-term disaster response programmes are excluded from the classification of social protection programmes. Their inclusion has confused debates on social protection in Bangladesh, and has inflated estimates of levels of investment. The other main programme to be excluded – potentially more contentiously – is Open Market Sales; it is an important subsidy but not a regular and predictable transfer.

Table 4.1 sets out the schemes that would fit under the definition of social protection used in this report. Only government schemes with spending above Tk.500 million (AUD6.3 million) are considered. As a result, 13 schemes are classified as social protection. However, if a higher spending threshold of 0.25% of annual government expenditure were used – around Tk.3,000 million (AUD37.8 million) – only 8 schemes could be regarded as significant

components of Bangladesh's social protection system.³⁸ The civil service pension has been excluded although there are arguments for recognising it as social protection, since many former civil servants would live in greater poverty if it did not exist. However, it is not primarily a scheme for poor individuals.

Box 4.1: Are Public Works Programs Social Protection?

Not all public works programs should be considered as social protection. If the main aim of a public works program is to build or maintain assets, it should not be considered as social protection. The focus in such programs should be for them to be labour intensive, but they are likely to need more skilled labour and pay higher wages. Only public works programs in which the priority is to pay transfers to participants – in other words, workfare – should be considered as social protection, with assets as a potentially positive side effect (although often these assets are of limited value).

Therefore, a number of public works programs in Bangladesh could be considered to be labour intensive infrastructure programs rather than social protection. So, the Rural Employment and Rural Maintenance Program may be better understood as an infrastructure maintenance program rather than social protection. Similarly, the Food for Work program also has many elements of an infrastructure program, rather than welfare. The Employment Generation scheme seems to be a good example of workfare although in some areas it imports labour from other regions, which indicates it is not purely social protection (Khatun *et al.* 2009).

However, for the purposes of this study, all public works programs have been recognised as social protection.

Overall spending on core social protection schemes is, therefore, much less than commonly believed, at around 0.77 percent of GDP, which is less than the amount invested by Nepal, a much poorer country.³⁹ Figure 4.1 compares the number of beneficiaries of eight of the ten major social protection schemes, along with their budgets. It is evident that the three largest programmes in terms of coverage are the school stipend programs and the Old Age Allowance, although benefits are comparatively small per recipient – in particular for the stipends – when compared to other programs such as Employment Generation, Vulnerable Group Development (VGD) and Insolvent Freedom Fighters.⁴⁰

³⁸ The Provident Fund is not included as a social protection scheme, as it is effectively a savings scheme, only providing lump sums.

³⁹ See Kidd and Wylde (2012) for information on Nepal's social protection system.

⁴⁰ The Civil Service Pension has relatively few beneficiaries despite having the largest budget, at 0.49 percent of GDP.

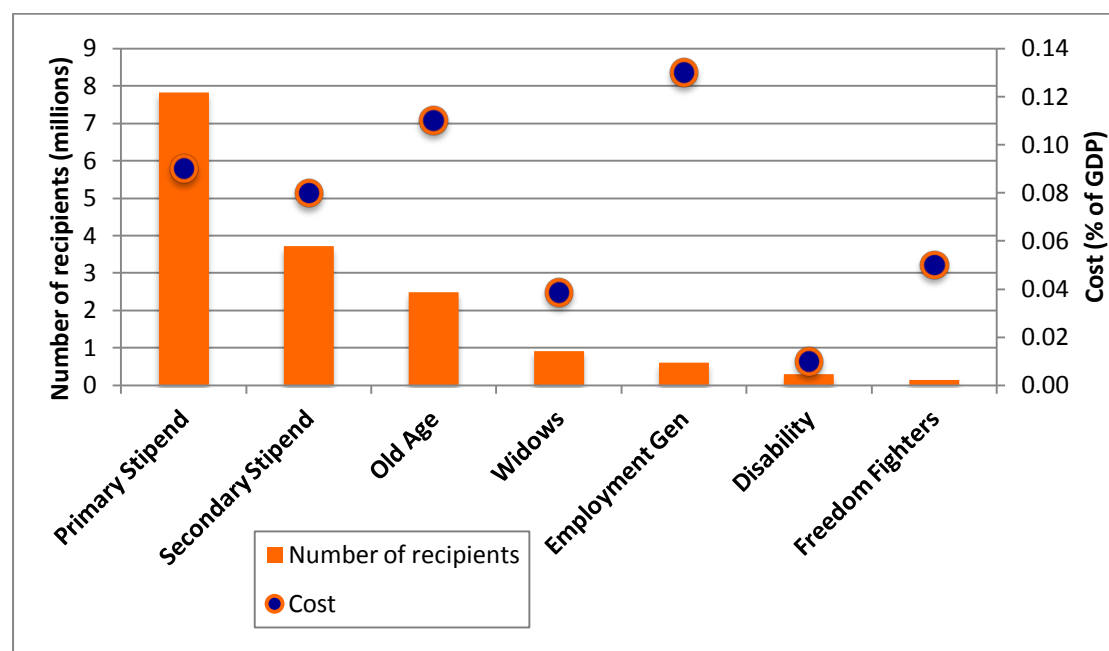
Table 4.1: The main social protection schemes in Bangladesh (2012 data)⁴¹

Area	Programme Description	Implementing Ministries	Start date	No of Beneficiaries	Allocation (Tk. Million)	% of total allocation	% of GDP
Childhood					16,560	25.34	0.19
	Stipend for primary students	Ministry of Primary and Mass Education	Early 90s	5.85 mill	8800	13.47	0.1
	Secondary education stipend programme	Ministry of Education	Early 90s	3.60 mill	6720	10.28	0.08
	Stipend for dropout students	Ministry of Primary and Mass Education			1040	1.59	0.01
Employment					24100	36.88	0.27
	Food for work	Ministry of Disaster Management	Late 70s	0.6 mill ⁴²	12760	19.52	0.12
	Employment generation for the poorest	Ministry of Disaster Management	Late 00s	0.6 mill	10000	15.30	0.13
	Rural employment and rural maintenance programme	Local Government Engineering Department	Late 80s	0.13 mill	1340	2.05	0.02
Disability					1714	2.62	0.02
	Allowance for financially insolvent disabled	Ministry of Social Welfare	Early 00s	0.2 mill	1030	1.58	0.01
	Honorarium for injured freedom fighters	Ministry of Social Welfare		0.008 mill	684	1.05	0.01
Women					10471	16.02	0.13
	Vulnerable group development	Ministry of Women and Children's Affairs	1975	0.6 mill	6546	10.02	0.08
	Allowance for widowed, deserted and destitute women;	Ministry of Social Welfare	Late 90s	1.07 mill	3312	5.07	0.04
	Vulnerable group development for the ultra poor women	DWA/MOWCA/NGOs		0.04 mill	613	0.94	0.01
Old Age					12510	19.14	0.16
	Old age allowance	Ministry of Social Welfare	Late 90s	2.4 mill	8910	13.63	0.11
	Honorarium for insolvent freedom fighters	Ministry of Liberation War Affairs, through the MoSW	1999	0.15 mill	3600	5.51	0.05
Total of Major Programme (2011-12 budget)					65355	100.00	0.77

⁴¹ Source: Rahman et al. (2011) and Khondker (2013). The Civil Service Pension is not included, although it has a budget equivalent to 0.49% of GDP.

⁴² Data on this programme is provided for person-months of work. 3.8 million months of work were expected to be generated in 2010/11. If each person received 6 months of work, this would provide 0.6 million beneficiaries.

Figure 4.1: Number of beneficiaries of social protection schemes compared to budgets⁴³



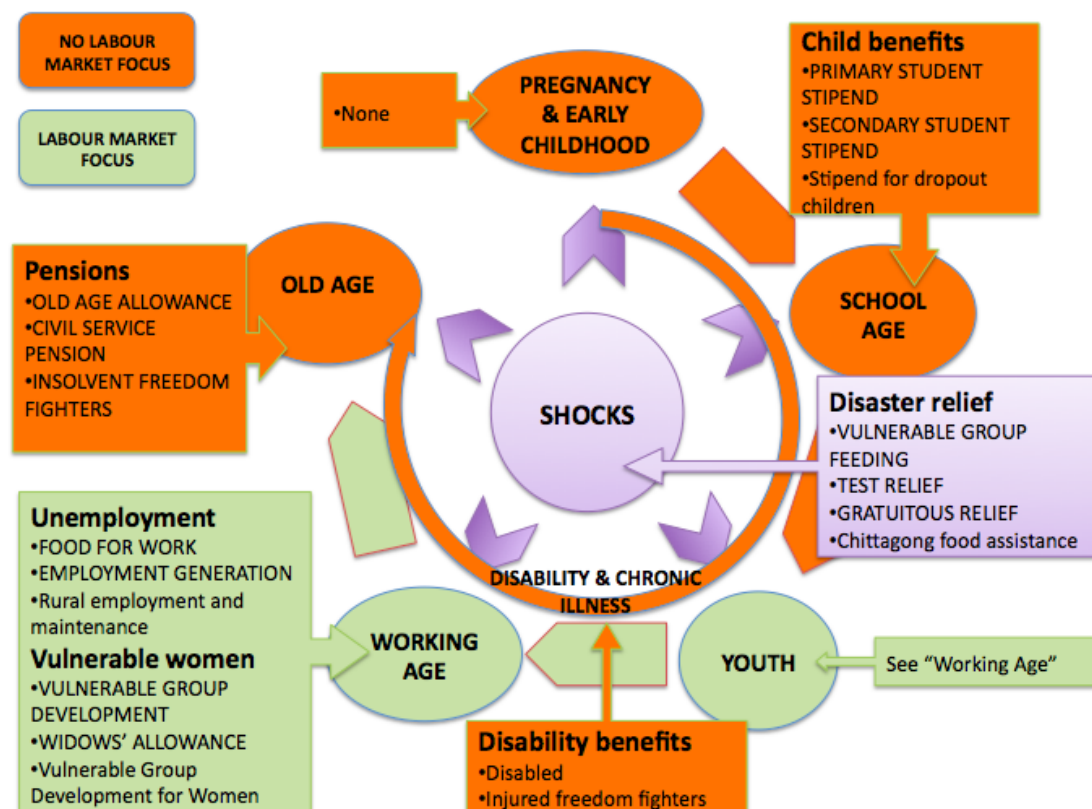
The major social protection schemes in Bangladesh have evolved over time to address lifecycle risks, although they are not necessarily well designed to achieve their purpose. Figure 4.2 maps the major schemes in Bangladesh across the lifecycle, with the larger schemes in capitals; it also includes the main short-term disaster relief programmes and the civil service pension.

A noticeable gap in Bangladesh's social protection system is major schemes directly addressing the needs of **pregnant women and young children**. MoWCA has two small-scale grants for young children, benefiting just over 100,000 families in total, while there is a World Bank-funded conditional cash transfer for young children in the Ministry of Local Government. There are health schemes providing incentive payments for women to attend pre-natal care and give birth in clinics. The Ministry of Women and Children's Affairs also provides some childcare schemes, mainly in Dhaka. The VGD programme could potentially be regarded as addressing the needs of a few young children, although its provision of wheat and rice may not be beneficial for child nutrition.

As Figure 4.1 indicates, the highest coverage of social protection schemes is during **school age**, mainly via the Primary Student and Secondary Student Stipends. Around 9.4 million children receive stipends, with the majority at primary school. Overall spending on student stipends is the equivalent of around 0.18 percent of GDP.

⁴³ Source: Ministry of Finance (2012) and Khondker (2013). Data on the number of civil service pensioners is from Aminuzzaman (2005), and the number has been increased in line with the growth in the national population. The number of beneficiaries of the Employment Generation programme is based on each participant undertaking 80 days work per year. However, Khatun *et al.* (2009) indicate that when the programme commenced there were 1.8 million beneficiaries, although less work was provided to each one. Data is not provided for the Food for Work scheme since the figures are uncertain. The Ministry of Finance data states 3.81 million recipients but it may mean 3.81 million person/months, as this is how other workfare programs are reported.

Figure 4.2: Major social protection schemes in Bangladesh mapped against the lifecycle⁴⁴



There is a range of programs addressing the needs of *young people and those of working age*. They are three main types of scheme: workfare schemes, in particular the Food for Work⁴⁵ and Employment Generation programmes; the VGD programme, providing wheat and rice transfers to women for up to two years, alongside training to help them develop income generating activities; and, the Widows' Allowance, providing an unconditional cash transfer, with no accompanying support, to enable recipients to engage more productively in the labour market (although many recipients of the allowance are, in fact, elderly). None of these programmes appear to have particularly extensive coverage – the largest is the Widows' Allowance – which means that the vast majority of the working age population is deprived of direct support. However, it needs to be acknowledged that many will receive the student stipends.

While there are programs to address the needs of *people with disabilities*, they are relatively small. The main disability grant reaches only 200,000 people while there is also a small scheme for disabled freedom fighters. The Ministry of Social Welfare has a small grant scheme for disabled schoolchildren, but it reaches only around 18,600 beneficiaries.⁴⁶

The highest expenditure in Bangladesh is on programmes that address risks associated with *old age*. The Civil Service Pension is the largest social protection scheme in Bangladesh,

⁴⁴ Schemes with a budget above Tk.3,000 million are in capital letters.

⁴⁵ The Food for Work scheme appears to provide recipients mainly with cash (Rahman: personal communication). Although the central government provides local government with rice, this is sold on the market and cash is provided to workers. By selling the rice, local government is able to cover the administrative costs of the program.

⁴⁶ Khondker (2013).

although it pays generally high benefits to few people. The Old Age Allowance has grown in recent years and now reaches 2.4 million people. In addition, the allowance for Insolvent Freedom Fighters is almost certainly mainly for older people while, as noted above, many of the recipients of the Widows' Allowance are elderly.

A key feature of all social protection schemes in Bangladesh – apart from the Civil Service Pension – is a strong commitment to targeting the “extreme poor.” Unlike some other developing countries, Bangladesh has not developed a mix of universal and targeted approaches to social protection. All schemes follow essentially the same targeting mechanism, which is based on local officials making decisions on selection, using criteria provided by central government. Furthermore, it is common for schemes to either target on the basis of a prior identification of poorer areas – using out of date poverty maps – or by employing fixed quotas for each area, usually upazilas.

Furthermore, social protection schemes are biased towards rural areas, and many specifically exclude urban areas. While 30 percent of rural households receive social protection benefits, coverage in urban areas is only 9 percent (BBS 2010). In the main urban areas of Dhaka and Chittagong, coverage is even lower, at 6 percent and 7.4 percent respectively. The focus on rural areas aligns with the government's aim to discourage urban migration. As a result, many migrants to urban areas are denied access to social protection benefits, despite apparently high levels of urban poverty, in particular in slums.

4.3. Impacts of Bangladesh's social protection system

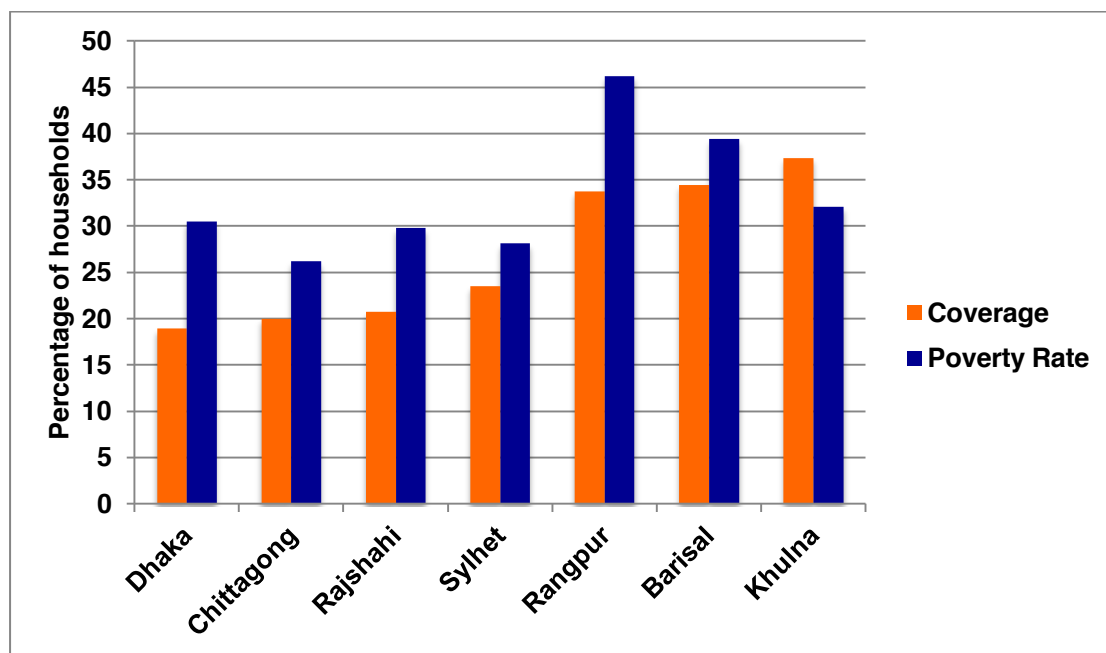
Despite relatively large expenditure on social protection – as broadly defined in Bangladesh – the impacts on poverty appear to be relatively insignificant. Analysis of the 2010 household survey indicates that the current broad social protection system reduces the national poverty rate by only 4.5 percent and the national poverty gap by 12.2 percent.⁴⁷ The impact of the core social protection programs would be less.

There are a number of reasons for the limited poverty impact of the social protection system relative to the size of investment. These include:

- Overall coverage of the schemes is low, and – at 25 percent – is less than even the national poverty rate. When the dynamics of poverty are taken into account – and many more people are considered as poor or experiencing hardship – this suggests that coverage is particularly limited. So, even if the poor were perfectly targeted, a large proportion of those who are poor, experiencing hardship and are vulnerable to poverty would miss out.
- As Figure 4.3 indicates, the coverage of social protection schemes is not aligned to the geographical spread of poverty. While in Khulna the proportion of households receiving benefits is higher than the poverty rate, in Dhaka and Rangpur it is more than 10 percent lower. As a result, the impact of low coverage is exacerbated across a number of Divisions.

⁴⁷ The poverty rate with transfers is 31.46 percent and 32.95 percent without; the poverty gap is 6.5 percent with transfers and 7.4 percent without. It may be that the information on receipt of transfers is deficient in the household survey – the transfers reported are much less than those that should be received – but even if the impact was doubled, it would still be very limited. The under-reporting of transfers may indicate broader problems with the household survey.

Figure 4.3: Proportion of households receiving social protection benefits by Division, compared to Divisional poverty rates (BNPL)⁴⁸



- Although social protection schemes attempt to select the extreme poor, targeting is not accurate and exclusion errors are relatively large (see Section 5.3 for more details). Only around 35 percent of poor households in 2010 received a benefit. Given that a high proportion of recipients are above the poverty line, necessarily this reduces the impact of schemes on poverty.
- The payment levels of benefits on some of the larger programs – in terms of number of beneficiaries – are too low to have much impact on poverty (see Box 4.2 for a discussion of specific schemes). Two of the schemes with the largest coverage – the Primary Stipend and OAA – have very low benefits, at Tk.100 per month and Tk.300 per month.⁴⁹ Figure 4.4 compares the Bangladesh OAA benefit with the benefit levels of other tax-financed schemes in developing countries and it can be seen that, as a proportion of GDP per capita, it is one of the lowest in the world. Furthermore, the Primary Stipend has not increased in value for many years, meaning a significant reduction in its purchasing power (Baulch 2010).

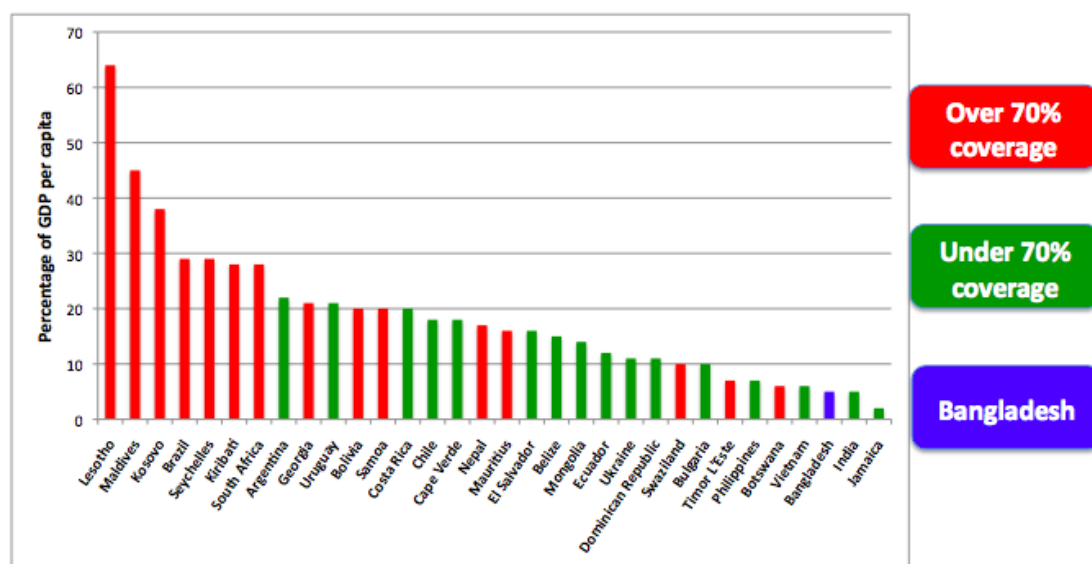
The low level of benefits means that impacts in other areas are also limited, including on child wellbeing. There is no evidence that social protection benefits paid to the parents of young children have an impact on child undernutrition. Ahmed *et al.* (2007) have shown that participation in the VGD and Food for Asset Creation programs had no impact on the caloric food intake among pre-school children, school age children or older people. In fact, they also indicate that the workfare program had a negative impact on nutrition among children aged

⁴⁸ Source BBS (2010).

⁴⁹ The Primary Stipend is, in reality, even lower given that, if a family has more than one child, it receives a total of only Tk.125 (Rahman *et al.* 2011).

6-60 months. This is in line with recent international evidence indicating that workfare often harms child nutrition⁵⁰ (Manley *et al.* 2012).

Figure 4.4: Value of Bangladesh OAA as a percentage of GDP per capita, compared to other tax-financed pension schemes in developing countries



Box 4.2: Impacts of specific social protection schemes

Bangladesh's national social protection schemes have had some impacts on recipients although they tend to be relatively small. Rahman and Choudhury (2012) examined five national schemes: the Widows' Allowance, the Old Age Allowance, VGD, Employment Generation and Secondary Stipend. They found that monthly household incomes increased by 11.6 percent, household savings by 92 percent, while cattle and goats increased by 44 percent. However, it is unclear the extent to which this is attributable to the schemes or to general improvements in the economy.

A study by BRAC (2008) on the Old Age Allowance indicated that the scheme had enabled recipients to increase their protein intake and they reported an increase in bodyweight.

However, not all impacts appear to be positive. Of particular concern is an increase in landlessness reported by Rahman and Choudhury (2012) among recipients of the Old Age Allowance, Secondary Stipend and Employment Generation programme. While this may be expected among Old Age Allowance recipients given their age, the largest increase – of 32 percent – was among those on the Employment Generation workfare scheme, although it is unclear whether this is related to their participation on the scheme.

Although the aim of the Primary Stipend program is to increase school enrolment, it has no discernible impact in this area, almost certainly because the value of the stipend is too low (Baulch 2010). However, the Female Secondary Stipend seems to have been more successful, although this may be the result of beneficiaries also receiving exemptions from

⁵⁰ Interestingly, Ahmed *et al.* (2007) did find an increase in caloric intake among school children and older people – though not pre-school children – from the Rural Maintenance Program, but it pays transfers that are 70 percent higher than VGD. This indicates that higher transfers may well have a greater impact.

school fees (Khandker *et al.* 2003; Shamsuddin 2013).⁵¹ Baulch (2010) argues that the Female Secondary Stipend has also been the reason for the lower drop out rates of girls – when compared to boys – in the upper grades of Primary School.

Box 4.3: Impacts of non-government asset transfer programs

Although not government social protection programs, there is significant enthusiasm in Bangladesh for asset transfer programs that incorporate regular cash transfers to participants, such as BRAC's Targeting the Ultra Poor (TUP) program – also known as the Challenging the Frontiers of Poverty Program (CFPR) – and the Chars Livelihoods Program (CLP). Although such programs claim high “graduation” rates, a closer analysis suggests that the impacts are much less than commonly believed.

In the TUP program – using 2007 values – the average increase in earnings from income generating activities was only Tk.1,755 per year, with annual per capita expenditure increasing by Tk.806 (Bandiera *et al.* 2012). To put this in perspective, average annual incomes in Bangladesh in 2007 were around Tk.107,000.⁵² Furthermore, the poverty line in 2007 was Tk.17,784 per capita per year which means that the increase in household expenditure was only 4.5 percent of the value of the poverty line, a minimal amount. Although the participants receive other benefits – such as an increase in assets, more self-confidence and a greater ability to manage livestock – the increase in annual per capita expenditure suggests that the program is unable to help them escape extreme poverty. It seems strange to claim that such small increases in income translate into “graduation” out of extreme poverty.

There are also indications that the sustainability of gains is not assured for all participants of the TUP. Among those who entered the program in 2002, 52 percent experienced a decrease in assets between 2005 and 2008 (Krishna *et al.* 2010). This is probably because beneficiaries are still subjected to the same risks and shocks as before and, without access to a continuing social protection transfer, their only option, when faced with illness or some other contingency, is to draw down on their assets (c.f. Huda 2012). These participants have the advantage of benefiting from BRAC's health program, which will provide them with some additional protection against shocks. Those on other programs without similar access to good health services may find that assets fall away even more quickly.

Finally, it should be recognised that these asset transfer programs often exclude particularly vulnerable groups – such as the elderly and people with disabilities – on the basis of the frequently erroneous belief that they are unable to engage in productive activities.

4.4. Cost-effectiveness of social protection schemes

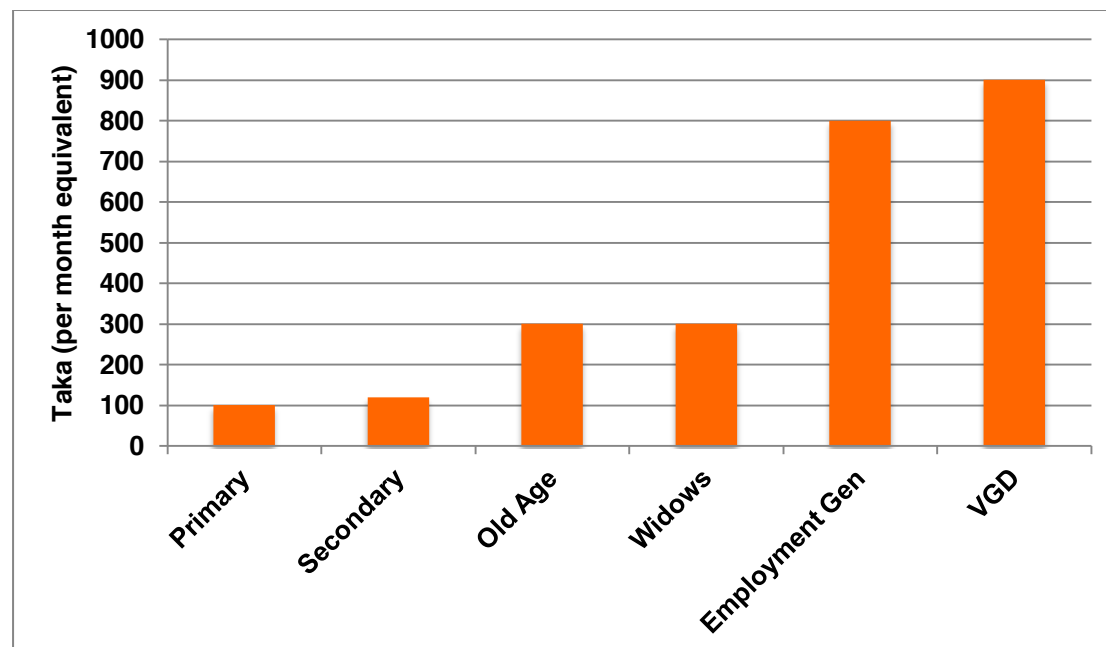
There is limited information on the overall cost-effectiveness of different schemes. However, an indication of the cost-effectiveness of programs can be gained by comparing the increase in incomes in beneficiary households with the size of the benefit. Rahman *et al* (2011) calculated that the percentage increase in household incomes was similar across 5 major social protection programs, at between 10.4 and 11.8 percent. The programs assessed were the Old Age Allowance, Widows' Allowance, VGD, Employment Generation and

⁵¹ Until 2009, the transfer on the Secondary School Stipend program was only Tk.25 per month which appears to low to incentivise children to stay at school, although over 10 years ago this amount may have had more impact.

⁵² Calculated using data from BBS (2010).

Secondary Stipend. Yet, as Figure 4.5 indicates, the size of benefits is very different. It would suggest that the Secondary Stipend, Old Age and Widows' Allowances are the most cost-effective programs.

Figure 4.5: Size of benefits across a selection of social protection schemes⁵³

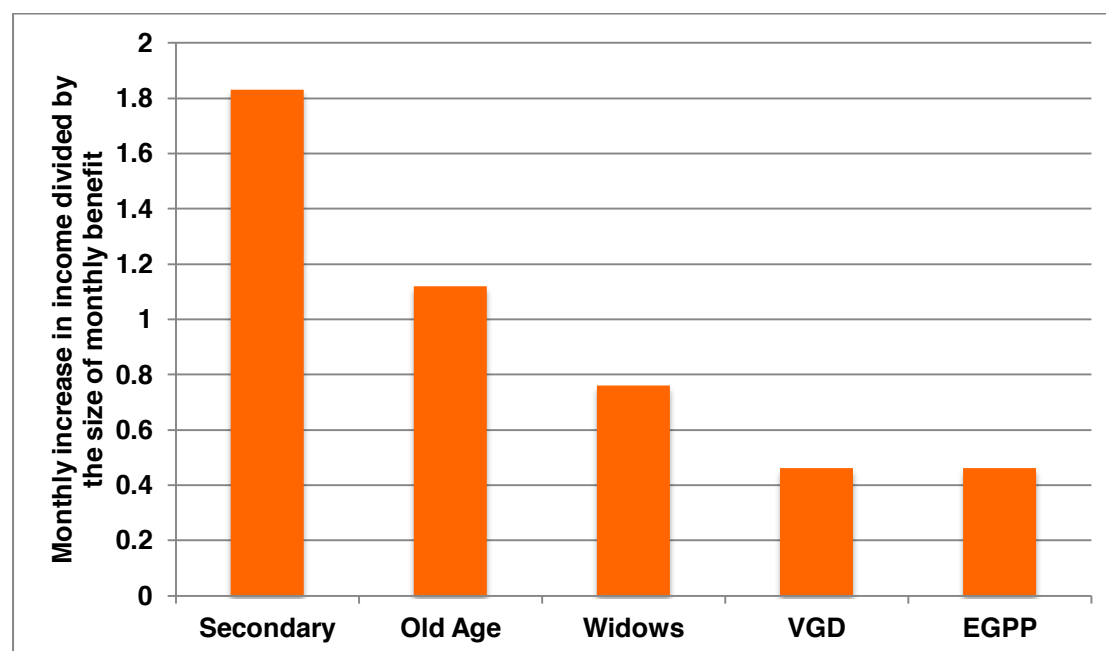


Another measure of cost-effectiveness is the increase in monthly income relative to the monthly benefit. Figure 4.6 has divided the increase in monthly benefit measured by Rahman and Choudhury (2012) by the size of the benefit.⁵⁴ It suggests that simple cash transfers again appear to be more cost-effective than workfare or food transfers.

⁵³ A number of assumptions have been used to calculate equivalent monthly benefits. The real value of the Primary Stipend is much lower since families with more than one child can only receive a maximum of Tk.120 per month. The Secondary Stipend provides benefits of between Tk.100 and Tk.150 so, for ease of calculation, a benefit level of Tk.120 (or Year 8) has been used. This may well underestimate the true level of the benefit since the in-kind benefits provided by the Stipend are not incorporated. For the Employment Generation programme, it has been assumed that beneficiaries work for 80 days per year at Tk.125 per day. For VGD, it has been assumed that the 30 kgs of grains delivered would cost beneficiaries Tk.30 per kilo to purchase in the market. It is likely that government procures the grains at a lower price but when comparing the impact of schemes it is preferable to examine the relative value to recipients.

⁵⁴ The increase in monthly income was for the years 2008 to 2011 while the benefit size is for the year 2012. While not strictly comparable, it is not problematic as the interest is in a relative measure comparing schemes, so the comparison between the value of benefits is likely to have been similar in 2008 and 2012.

Figure 4.6: Monthly increase in income measured by Rahman and Choudhury (2012) divided by monthly size of transfer⁵⁵



A study by Ahmed *et al.* (2007) provides insights into why workfare schemes are not cost-effective. They found that for each Tk.100 transferred in a Food for Assets workfare program, the income of participants increased by only Tk.32. Indeed, they also calculated that it cost Tk.272 for the Food for Assets workfare program to increase household monthly income by Tk.100. The low cost-effectiveness of workfare programmes is partly due to the opportunity costs incurred by participants who have to withdraw from other income generating opportunities. Furthermore, Ahmed *et al.* (2007) noted that participants were exhausted after a full day's work and were in a poor position to undertake other activities, including the care of children.⁵⁶ On the Chars Livelihoods Programme, there is evidence of public works programs impacting negatively on female participants health, with many losing weight (Helen Keller International: undated).

The low cost effectiveness of the VGD program may be because it delivers food rather than cash. Food restricts the ability of families to make decisions on how best to use the transfers, unless they sell the food to convert it into cash, often at a discounted rate. Food may also depress local markets or, at the very least, it will not have the same impact as cash in stimulating local consumption to benefit local markets. While not impacting directly on families, the cost-effectiveness of food transfers is also reduced due to higher delivery costs, when compared to cash. Ahmed *et al.* (2007) found that, while it cost Tk.20 to deliver Tk.100 of food, the cost of delivering cash was negligible.

⁵⁵ So as not to underestimate the value of the Secondary stipend, it has been assumed that families will have 2 children receiving stipends (either Secondary or Primary). Therefore, the calculation for the Secondary Stipend assumes a value of two stipends, at Tk.240 per month.

⁵⁶ Interestingly, Ahmed *et al.* (2007) found that another workfare programme – the Road Maintenance Program – was more cost-effective, with a transfer of Tk.100 converting into increased income of Tk.85. This was because the time spent on public works in the Rural Maintenance Program was relatively short, with the workday from 8 am to 2 pm. As a result, participants could continue with other income generating activities.

Food is not used for transfers by government due to any conviction that it is superior to cash. Instead, government engages actively in the rice market to influence prices and, as a result, stores significant quantities of rice. These stocks need to be replenished to keep them fresh. The food that it no longer needs is, therefore, disbursed as transfers. It is unlikely that government will change this practice so the potential for moving from current food transfers to cash may be limited, unless the Open Market Sales programme were expanded as a means of dealing with the food surplus.

Box 4.4: Cost effectiveness of asset transfer programs

The average cost of the BRAC TUP asset transfer program was US\$600 per household in 2007⁵⁷ (Bandiera *et al.* 2012). Yet, the increase in annual expenditure per household was around US\$36. It would, therefore, take almost 17 years to recover the investment. Potentially, It would be interesting to see whether providing households with \$100 per year for 6 years would have a higher sustainable impact. International evidence would indicate that, with a higher level of benefit, families are able to invest in their own business activities without additional support.

Furthermore, although the data is not reliable enough for a strict comparison, it is interesting to note that the increase in annual household income from the Old Age Allowance was found by Rahman and Choudhury (2012) to be Tk.4,000, significantly higher than the increase in income reported by the TUP program (at Tk.1,755).⁵⁸ It suggests it would be preferable for TUP beneficiaries to be in regular receipt of a transfer, even one as low as the Old Age Allowance.

Finally, the household increase in expenditure of Tk.2,400 came at a cost of an additional 765 hours worked (Bandiera *et al.* 2012). This corresponds to just over Tk.3 of income per hour of work, equivalent to around Tk.24 for an 8 hour day. This does not suggest a particularly productive increase in labour. Indeed, some of the increase in labour would appear to be from children.

4.5. Targeting performance

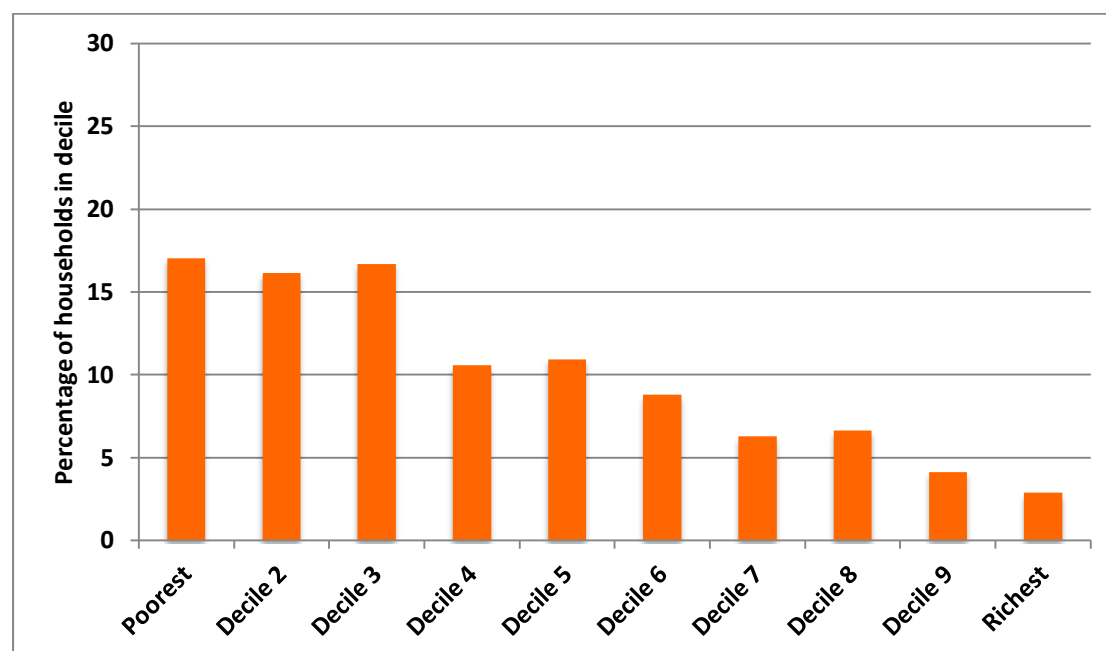
The targeting performance of Bangladesh's social protection schemes is not strong. Figure 4.7 indicates the proportion of recipients across wealth deciles for the Old Age Allowance. Only around half the benefits reached those who were, at the time, under the poverty line. Similar poor targeting has been shown for the Primary Stipend⁵⁹ (Baulch 2010).

⁵⁷ It is unclear whether this includes the costs of staff and administration, so overall costs may be higher.

⁵⁸ Rahman and Choudhury (2012) also use income in 2007 values.

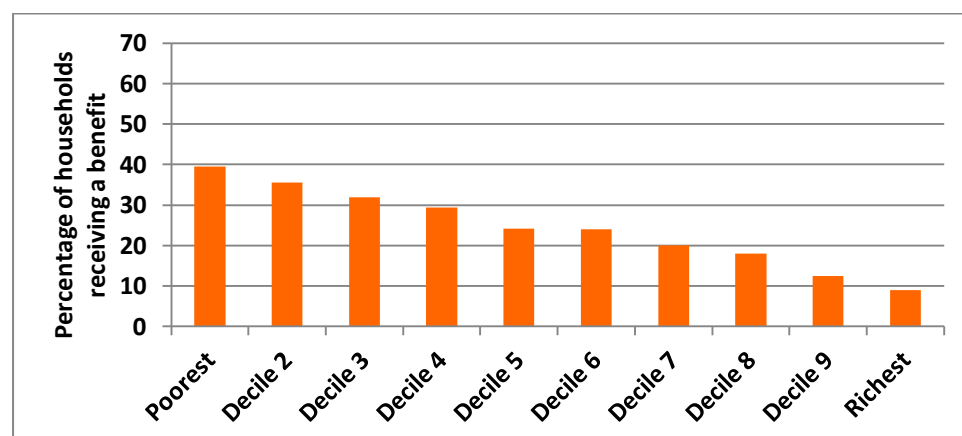
⁵⁹ The Secondary Stipend used to be provided to all girls. However, most of the beneficiaries were better-off, probably because there were less poor girls reaching secondary school. In reality, the stipend aimed to address gender discrimination, rather than address poverty directly (Grosh *et al.* 2008).

Figure 4.7: Proportion of beneficiaries of Old Age Allowance in each wealth decile (2010)⁶⁰



In fact, the targeting of social protection benefits overall – with the exception of the civil service pension – is similar to the Old Age Allowance, but it is not necessarily as weak as often thought. Figure 4.8 indicates the proportion of households receiving at least one benefit in each decile. As can be seen, the proportions are higher among the poorest households with the overall pattern relatively progressive. If it is considered that all households in the poorest six or seven deciles are poor, experiencing hardship or vulnerable to poverty, there are few households that should absolutely not be receiving a benefit.

Figure 4.8: Proportion of households in each decile that receive at least one social protection benefit⁶¹



However, there are multiple reasons for inaccurate targeting, including geographical quotas, the use of schemes for patronage purposes and the realities of poverty dynamics. Each is discussed briefly below.

⁶⁰ Source: HIES (2010)

⁶¹ Only those schemes considered to be social protection in this report are included. So, for example, disaster relief programs have not been included.

The geographical quota system in schemes such as the Old Age Allowance means that, necessarily, a relatively high proportion of recipients are from better off areas. So, even if recipients are among the poor in their upazila, they may be relatively wealthier in a national context. Exclusion errors are also increased by the low coverage of schemes in urban areas which means that many poor people are missed, in particular in slums.

While it is commonly believed that many targeting errors are due to corruption, with local officials providing benefits for the purposes of patronage, Hossain (2007) argues that the situation is more complex. Local officials are confronted by a large number of potential recipients and it is challenging for them to identify who is poorer than others. They are also subjected to lobbying from potential recipients, which was also noted by BRAC (2008) in its study of the Old Age Allowance. Given the restrictions in the number of people that can be selected due to quotas, officials tend to choose some of the poor from a larger pool of poor. While they may well use this for patronage purposes, they are probably, nonetheless, mainly selecting poor people. Of course, there is also some abuse of the system, with money being charged to those put on beneficiary lists, but this may not be a significant driver of poor targeting.⁶²

It is likely that the main reason for the poor targeting performance is the dynamic nature of incomes among poorer households and those experiencing hardship. As noted in Section 2, in 2010, over 60 percent of the population could be considered as poor or vulnerable to poverty and in many regions this is much higher. The differences in incomes between most households is – as Figure 2.2 indicated – relatively small. Therefore, officials have – in effect – to select a small number of beneficiaries from the majority of the population, with many having similar incomes, and it is unsurprising that they make errors. Given that household incomes can also rise and fall relatively rapidly, selection on the basis of poverty is like hitting a moving target. The fact that the majority of beneficiaries of programs are among the poorest 60 percent of the population in any given household survey probably indicates a reasonable targeting performance.

The main concern with targeting is the high exclusion errors, with the majority of the poor not receiving any benefits. Yet, the main cause of the high exclusion errors is the small size of social protection schemes – due to low budgets – so that they cannot provide the necessary coverage of the population in Bangladesh. Inaccurate targeting performance is a less important reason for the exclusion errors found.

However, targeting challenges are not only due to the difficulties in identifying the poorest families and individuals. Analysis of the 2010 HIES indicates that a large proportion of beneficiaries of the Old Age Allowance are too young, with 33 percent under the age of eligibility.⁶³ As a result, many more old people are excluded from the Old Age Allowance than indicated by the number of recipients. The inclusion of younger people may indicate the extent to which elites use the scheme for patronage. It is likely that similar problems could be found in other benefits, such as the Widows' and Disability Allowances.

While targeting is, in general, reaching the right people, there are sufficient problems to indicate that it should be improved. Indeed, one important reason for improving targeting is to stop local elites from using social protection schemes for patronage purposes, as this is weakening democracy. It could be argued that strengthening Bangladesh's social protection

⁶² See BRAC (2008) and Khatun *et al* (2009).

⁶³ The age of eligibility for the old age pension is 62 years for women and 65 years for men. It is possible that there may have been problems in identifying age correctly in the HIES.

system – in particular its selection processes – could contribute to strengthening governance and democracy.

4.6. Administrative systems of social protection schemes

The administrative systems of social protection schemes in Bangladesh are relatively weak. As Table 4.2 notes, schemes are spread across a range of Ministries without any Ministry having a clear specialisation in their delivery. In reality, much of the administration is by local government using paper-based management information systems (MIS). There are no central beneficiary databases for schemes, and no advanced management information systems linking local areas with the centre. As a result, government is unable to effectively manage and monitor its social protection schemes.

The weaknesses of MISs also mean that payment systems have to be managed locally. Although many cash payments are made through banks, funding is first sent to local government, which is responsible for passing the transfers to the banks. The advantages of undertaking national tendering of payments and economies of scale are, therefore, lost. In the workfare programmes, such as the Employment Generation programme, payments are made on a daily basis by programme officials – often with no proper receipts – thereby allowing significant scope for corruption. The potential for building a financially inclusive payment system is not being taken advantage of.

There is good evidence of losses of food in food transfer schemes due to weak administration and monitoring. There are, for example, claims of up to 30 percent of food being lost on the Food for Work programme (Khatun *et al.* 2009). On the VGD scheme, the leakage of food is around 13 percent (Ahmed *et al.* 2007).

Inadequate investment in management and administration – in particular from the centre – evidently means that other aspects of programme operations are ineffective. There are no adequate grievance systems, for example. There is also no indication that Ministries are able to effectively monitor schemes and hold local government to account, for example through monitoring visits or spot-checks. Influential figures in ministries recognise that their staff – and local government staff – need significant capacity development to be able to manage schemes effectively.

4.7. Governance of social protection schemes

Bangladesh's social protection schemes are run by a number of Ministries. While it is often claimed that over 20 Ministries are responsible for social protection, the main schemes are run by six Ministries (if the Civil Service Pension is excluded⁶⁴). The Ministries and the programs they are responsible for are set out in Table 4.2.

⁶⁴ The Civil Service Pension is managed by the Accountant General's Office in the Ministry of Finance.

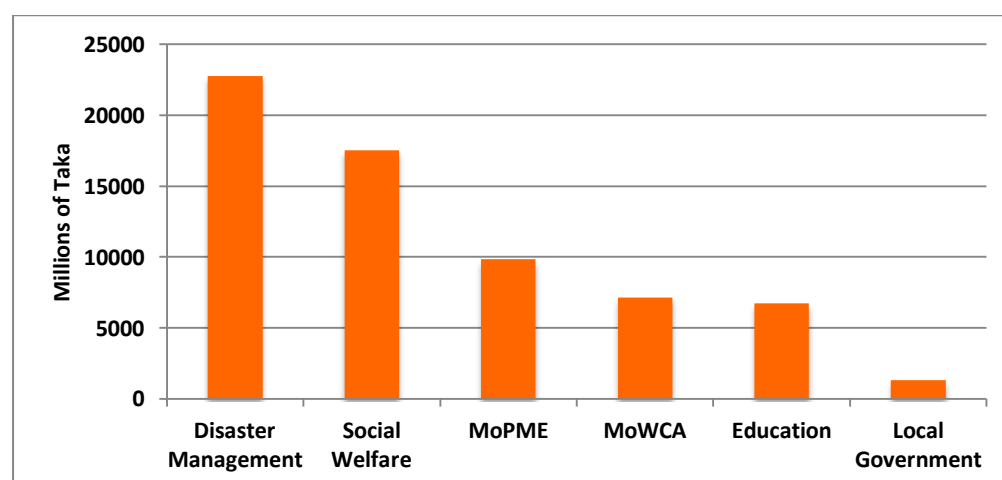
Table 4.2: Ministries responsible for social protection schemes

Ministry	Scheme
Social Welfare	Old Age Allowance
	Widows' Allowance
	Disability Allowance
	Injured Freedom Fighters
	Insolvent Freedom Fighters ⁶⁵
Women and Children's Affairs	VGD
	VGD for Ultra Poor Women
Primary and Mass Education	Primary Stipend
	Drop-outs Stipend
Education	Secondary Stipend
Local Government	Rural Maintenance Program
Disaster Management	Employment Generation
	Food for Work

In terms of responsibility for budgets, the leading ministries for social protection are set out in Figure 4.9.⁶⁶ The Ministry of Disaster Management manages the largest social protection budget, although this is dependent on the inclusion of the Food for Work program which – as Box 4.1 indicated – could, potentially, be considered as more of an infrastructure programme. The Ministry of Social Welfare is the other prominent Ministry in terms of the size of its social protection budget, delivering five schemes. The other Ministries have relatively similar budgets and no more than two large schemes each. MoWCA has a number of other small schemes – such as two providing transfers for young children – which have not been included here, as budgets are small.

There is, however, no Ministry responsible for overall policy on social protection. By default, key policy initiatives – such as the decision to develop a National Social Protection Strategy – are taken by the Cabinet Secretariat, in consultation with other Ministries. It is expected that the National Social Protection Strategy will clarify governance structures for social protection, potentially indicating a lead Ministry.

Figure 4.9: Social protection budgets managed and implemented by Ministries



⁶⁵ The Insolvent Fighters Program is overseen by the Ministry of Liberation Work Affairs, but it is administered by the Department of Social Welfare, under the Ministry of Social Welfare.

⁶⁶ In reality, the Ministry of Finance manages the largest social protection budget as the value of the Civil Service Pension is Tk39,900 millions.

Budget decisions on social protection are taken by the Ministry of Finance, under the leadership of the Cabinet. Ministries are able to propose budgets to the Ministry of Finance but have little influence over the final allocation. There is reluctance among Ministries to propose significant increases in budgets. However, Ministries are more successful in gaining small budgets, which feed the multiplication of small social protection programs. In part, this proliferation is driven by development partners persuading Ministries to adopt a pet initiative, with core funding coming from the donor.

In reality, effective policy on social protection is driven by budget allocations. So, it could be argued that the Ministry of Finance is, *de facto*, the lead Ministry on social protection policy. This reflects the normal practice in most countries where Ministries of Finance – in collaboration with political leaders - have the greatest influence in the development of social protection policy. The Ministry of Finance has expressed its desire to strengthen its ability to monitor the execution of spending on social protection, potentially via a national Management Information System on social protection that is overseen by the Ministry of Finance.

4.8. Government policy on social protection

Social protection – or, in effect, social security – is guaranteed as a right in the Constitution of Bangladesh.⁶⁷ In Article 15 – titled the *provision of basic necessities* – the Constitution states:

It shall be a fundamental responsibility of the State to [secure] to its citizens ***the right to social security, that is to say to public assistance in cases of undeserved want arising from unemployment, illness or disablement, or suffered by widows or orphans or in old age, or in other such cases.***

In effect, social protection/security is defined as an entitlement and, specifically, as tax-financed assistance from government that is directed at addressing lifecycle risks.

The main policy document setting out commitments to social protection is the 6th Five Year Plan (2011-15). The Plan distinguishes between the poor with labour capacity who can “lift themselves out of poverty with appropriate short to medium-term support” and the “dependent poor” who are old, disabled and chronically sick [and] will depend on long-term social protection to survive.” This replicates traditional prejudices against providing social protection to the working age population on a long-term sustainable basis. The Plan, however, recognises the erosion of traditional family-based systems of support and highlights the elderly and people with disabilities as “new vulnerable groups.”

The Five Year Plan also sets out weaknesses in government systems, stating that leakages in the Food for Work program are 26 percent and 10-12 percent in the Female Secondary Stipend program. Indeed, it notes that the main weaknesses in government social protection programs are coverage, targeting, leakages and disparities between regions.

⁶⁷ There are strong arguments for using the term social security in Bangladesh, instead of social protection. Social protection is a highly contested term and often there is little common understanding on what it comprises. Since social security is recognised as a right in the Constitution of Bangladesh and its meaning is much less contested than social protection, its use would engender a sense of entitlement and create more common understanding.

The main commitment in the Five Year Plan is to increase budgetary commitments from 2 percent to 3 percent of GDP. Given that the estimates of the current budget included disaster relief programs and do not include the civil service pension, this should probably be understood as increasing the budget commitment from a base of 0.78 percent of GDP, but probably by less than one percent.

However, the Five Year Plan is unclear about which programs will be prioritised for expansion. It does, though, make commitments to extend childcare services, which could help women in the labour force. It also indicates that the introduction of a contributory old age pension will be explored. The Plan notes that priority will be given to tackling child undernutrition.

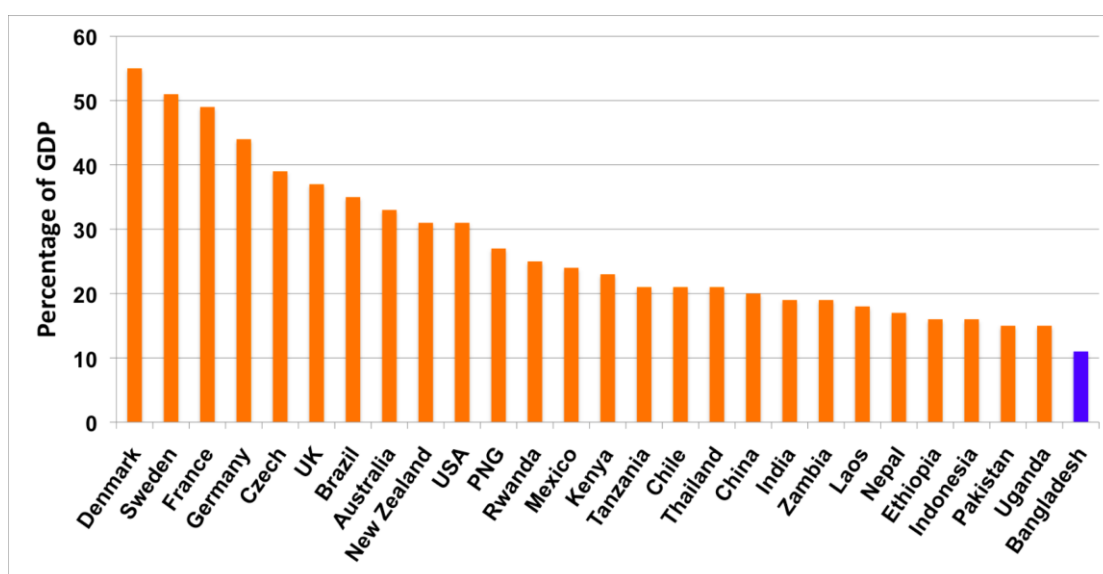
The Plan makes some commitments to improve social protection systems and governance, such as strengthening monitoring and evaluation, reducing the number of organisations administering social protection programs, increasingly decentralising responsibilities for implementation to local government, and consolidating programs.

The government plans to overcome the lack of specificity in the Five Year Plan by developing a National Social Protection Strategy. The General Economics Division (GED) in the Ministry of Planning is currently leading this process.

4.9. The political economy of social protection in Bangladesh

The political economy of social protection in Bangladesh needs to be understood within the broader context of national economic and social policy. As Figure 4.10 indicates, when compared to other countries, both development and developing, Bangladesh is a country with a low tax base. The limited tax intake significantly restricts the capacity of Bangladesh to re-distribute and invest in social policy. As Davis (2004) argues, social policy in Bangladesh has traditionally been based on an ideology of low taxes and limited redistribution.

Figure 4.10: Government revenues in developed and developing countries as a percentage of GDP (2011)⁶⁸



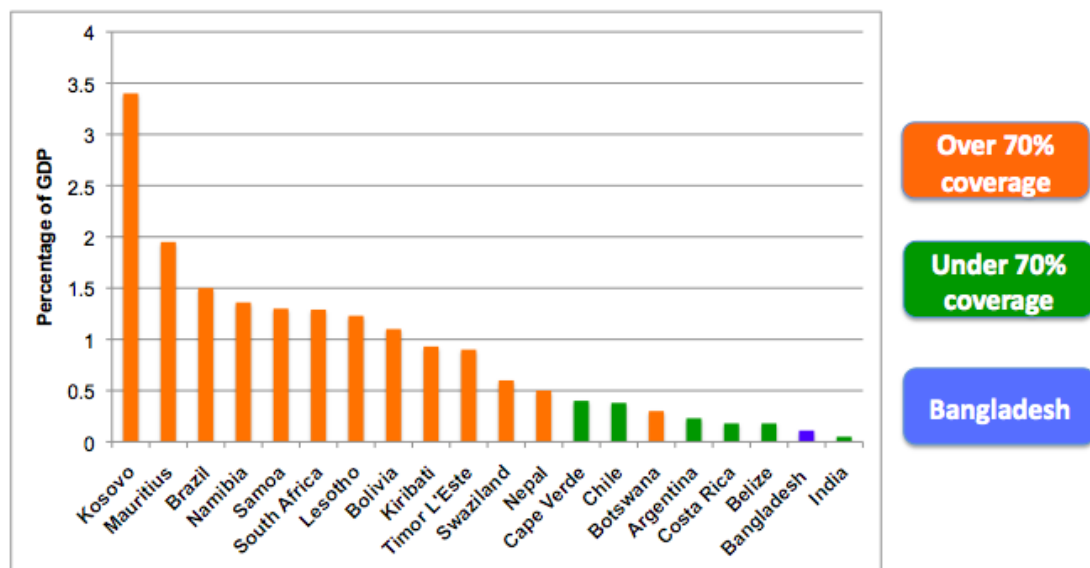
⁶⁸ Source: IMF World Economic Database

The policy discourse of targeting the extreme poor is – as Pritchett (2005) of the World Bank argues – characteristic of a commitment to limiting government expenditure and maintaining taxes at a low level. Indeed, the strong commitment in Bangladesh to targeting the extreme poor indicates could reflect weaknesses in democracy, reflecting the significant periods of time that Bangladesh has spent under authoritarian regimes since independence.

Interestingly, the commitment to targeting the extreme poor is shared by many intellectuals and development partners in Bangladesh. In many cases, this probably does not reflect a belief in small government but a lack of understanding of the political economy of social policy. Countries with more progressive social policy tend to have a greater commitment to more inclusive and universal programs, since these build alliances between the poor and those in the middle of the wealth spectrum. As Sen (1995) points out, the poor are politically weak and can find it difficult to defend their own interests. Programs that build alliances between the poor and those who are wealthier are more likely to receive higher levels of investment and, indeed, provide higher benefits to the poor than poverty targeted programmes (Pritchett 2005).

Therefore, the targeting of social protection schemes to the “extreme poor” in Bangladesh could be a key explanation for their low budgets and limited benefits. The Old Age Allowance is a good example. As Figure 4.11 indicates, Bangladesh’s investment in the OAA is one of the lowest in the world. It is even significantly lower than Nepal – a much poorer country – although this is understandable given that Nepal provides a universal pension, which generates greater political commitment. The exclusion of many children of politically more influential parents from the Primary Stipend – and, indeed, the public primary school system – may well also explain the significant reduction in its purchasing power over the past ten years.

Figure 4.11: The cost of the Bangladesh OAA compared to other tax-financed pensions in developing countries

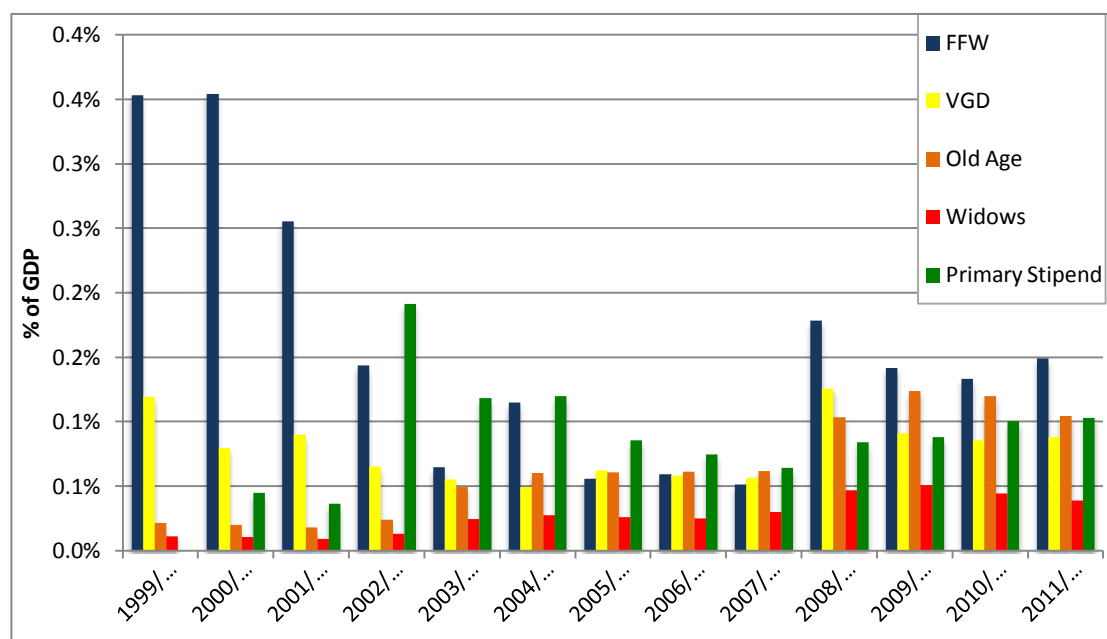


There is also a strong political discourse in Bangladesh around the concepts of dependency and graduation. Many believe that, if people receive benefits, they will become lazy and stop working, despite international evidence indicating that social protection benefits can help people engage more effectively in the labour market. As a result, there has been a preference for programs that either make people work to receive their benefits – such as

workfare or conditional cash transfers – or are provided for a limited period, such as VGD. However, as the 6th Five Year Plan suggests, government and popular discourse recognises that the “deserving poor” – such as the elderly and people with disabilities – should receive permanent support. On the positive side, a commitment to “graduation” does mean that efforts are made to complement programs such as VGD with training, to enable people to engage more effectively in the labour market. Yet the commitment to help recipients access work should not be seen as incompatible with the provision of long-term entitlements, especially if this can ensure greater access to the labour market for vulnerable families.

Nonetheless, it is evident that, over the past decade, there has been a growing commitment to social protection in Bangladesh. As Figure 4.12 indicates, a number of schemes have grown in size, when budgets are measured as a percentage of GDP. The Old age and Widows’ Allowances grew gradually from inception to 2009/10, but have stagnated since then. The Primary Stipend had its highest expenditure in 2002/03 but fell rapidly; however, since 2007/08 it has been gradually recovering, as student numbers have expanded. Overall, therefore, there seems to have been a growing trend of political support for these programs since 2005. The commitment to food-based programs – VGD and Food for Work – fell from the late 1990s until the food crisis of 2008, when they rapidly expanded. While it may have been expected that spending on these programs would fall once the food crisis finished, in fact the reduction in budgets was minimal, reflecting perhaps that they are used by government mainly as a means of managing the grain reserves.

Figure 4.12: Spending – as a percentage of GDP – on a number of social protection schemes between 1999/2000 and 2011/12

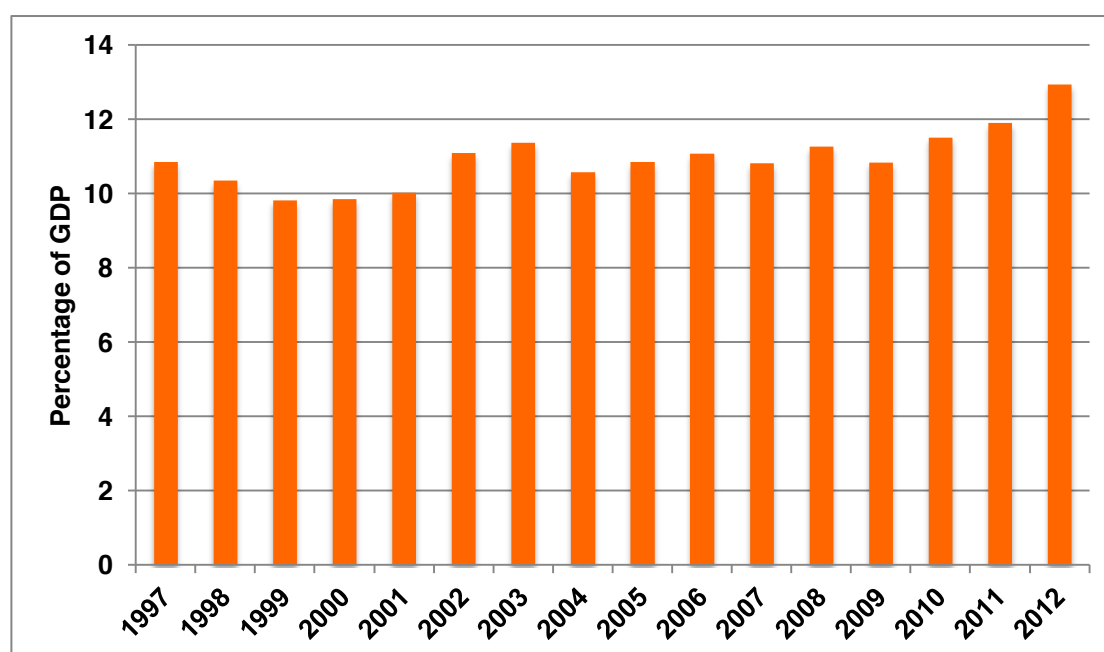


However, when assessing the level of political commitment to social protection, it is important to recognise that all individual schemes have low budgets and the programs themselves face significant challenges, as evidenced by leakage rates, targeting errors, the use of patronage in the selection of beneficiaries, corruption and inefficient systems. As Sen (1995) has argued: “Benefits meant exclusively for the poor often end up being poor benefits.”

Therefore, while it is positive that Bangladesh has invested over 0.7 percent of GDP in core social protection schemes – many low-income countries invest almost nothing – its overall spending is low, and less than the investment by many other developing countries on old age pensions alone. It is unlikely that any individual program will grow to a budget that is sufficient for it to have a significant impact on poverty unless it becomes “inclusive,” in other words incorporating not only the extreme poor but also those in the middle and the wealthier. In reality, as Section 2 indicated, given that the majority of Bangladeshis should be considered either as poor, facing hardship or vulnerable to poverty, an inclusive approach would still mainly reach families who would benefit from incorporation in a social protection scheme.

However, as Figure 4.13 indicates, democracy is beginning to lead to an increase in tax revenues. This may open the space for greater investment by government in inclusive social policy, whether it is in social protection, health or education. If democracy is maintained over a long period, it may well be that approaches to social protection are debated in election campaigns, which may result in increased budgets.

Figure 4.13: Government revenues as percentage of GDP (1997 to 2012)⁶⁹



4.10. Development partner engagement in social protection

Development partners are engaged in social protection in a number of ways. Over the past decade, the most significant investments in social protection have been from bilateral development partners, mainly through non-government channels. DFID continues as a significant funder of BRAC and the Chars Livelihoods Program – with AusAID support – while the European Commission has funded programs such as the Food and Livelihood Security (FLS) Program, Food and Security for the Ultra-Poor (FSUP) program, and REOPA. While these programs are nominally with government, they are implemented by non-governmental organisations: the FLS is implemented by four NGOs, FSUP by WFP, and

⁶⁹ Source: IMF World Economic Outlook Database at: <http://www.imf.org/external/ns/cs.aspx?id=28>

REOPA – now discontinued – by UNDP. They are essentially asset transfer or micro-enterprise programs rather than social protection, following the model of the BRAC TUP scheme.

Only in the past three years have international development partners really begun to engage in social protection policy dialogue with government. AusAID, DFID and UNDP have supported, for example, an influential conference on social protection and the development of a National Social Protection Strategy. A sub-group of the extreme poverty Local Consultative Group has been established to strengthen policy dialogue and coordination. The World Bank has focused its efforts on strengthening the Employment Generation Programme, improving targeting through the introduction of a national single targeting mechanism that uses the proxy means testing methodology, and the introduction of a new conditional cash transfer (CCT).

5. POTENTIAL REFORMS TO THE SOCIAL PROTECTION SYSTEM

There are a number of areas that could be the focus of reforms in social protection in Bangladesh. This report will examine four. The first will assess the potential for Bangladesh to make a gradual paradigm shift in its approach to social protection, by moving to a stronger focus on inclusive, entitlement-based, lifecycle programs. The second will look at options for changing the governance of the social protection sector in Bangladesh. The third will examine potential reforms of delivery systems. Finally, the fourth will discuss potential new approaches to social protection that could be introduced to Bangladesh.

5.1. A paradigm shift: strengthening entitlement-based lifecycle programs

Bangladesh's social protection system is based around a lifecycle approach, although this is combined with a strong focus on poverty targeting. However, as indicated earlier, poverty targeting in developing countries is always associated with high errors and is unlikely to generate the political support for increased investment. One option for Bangladesh is to follow other developing and developed countries by investing in more progressive universal entitlements that target stages in the lifecycle where people are most vulnerable. In both developed countries and many developing countries, some of the largest social protection programs are those focused on providing income security for the elderly and people with disabilities, as well as income support for vulnerable children.

Using the 2010 household survey, a micro-simulation model has been developed by the authors to determine the impacts and coverage of lifecycle programs. For illustrative purposes, the analysis here will focus on two types of scheme: an old age pension, as this is usually a country's largest social protection scheme; and, a child grant for 0-4s as this could help address the challenge of child undernutrition and is a significant gap in Bangladesh's social protection system.

The micro-simulation model has examined both universal and poverty targeted programs. Poverty targeted options have been modelled using the theoretical errors that would be generated by the proxy means test⁷⁰ (see Section 5.3 for a description of the errors in the proxy means test).

5.1.1. Micro-simulations of an old age allowance

The number of beneficiaries of the Old Age Allowance is equivalent to around 31 percent of over-65s, although the number of older people receiving the scheme is less, as 33 percent of beneficiaries are under the age of eligibility (see Section 4.5).⁷¹ Micro-simulations were undertaken for a wide range of Old Age Allowance options, but the results presented here are for a universal Old Age Allowance for over-65s and an option targeted at around the same proportion of over-65s as at present (ie. 30 percent). However, different benefit sizes are used, ranging from Tk.450 per month to Tk.1,000 per month. While these are significantly higher in value than the current Tk.300 that is paid to older people, as Figure 5.1

⁷⁰ The use of the PMT methodology in the micro-simulations underestimates the real errors of poverty targeting as it assumes perfect implementation, which is highly unlikely. However, it is preferable to assuming perfect targeting, which produces very distorted results.

⁷¹ In reality it reaches even less over-65s, as women can receive the OAA at age 62 years. Furthermore, many recipients may be younger than 65 years, as they may have accessed the program illegitimately.

indicates, in an international context they are not particularly high. Indeed, Tk.1,000 per month is equivalent to Nepal's old age allowance in terms of GDP per capita.

Figure 5.1: Values of simulated Old Age Allowances as percentages of GDP per capita, in international comparison

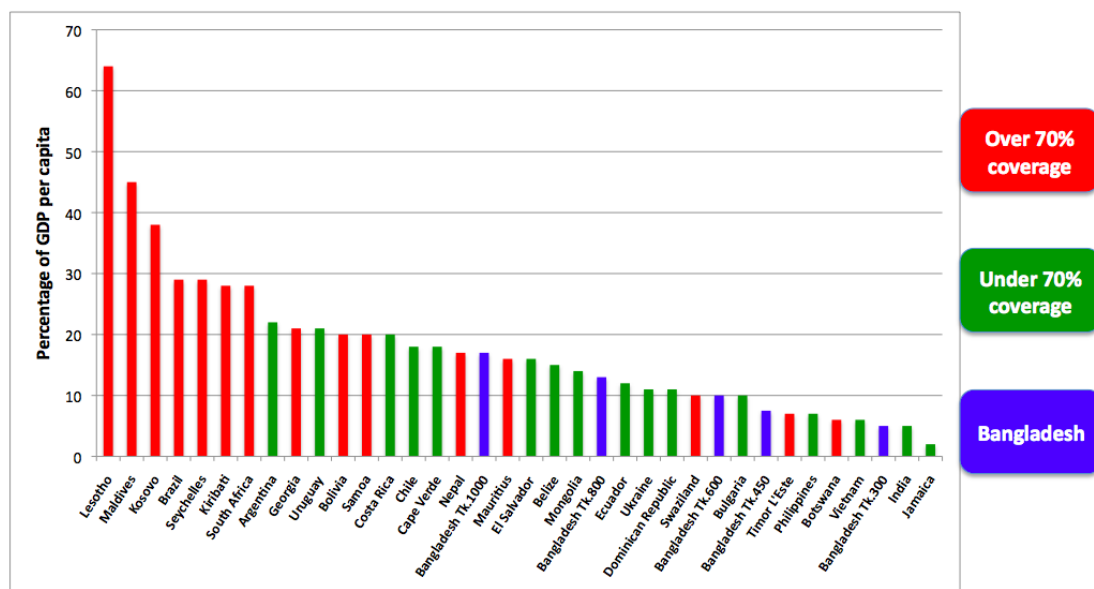


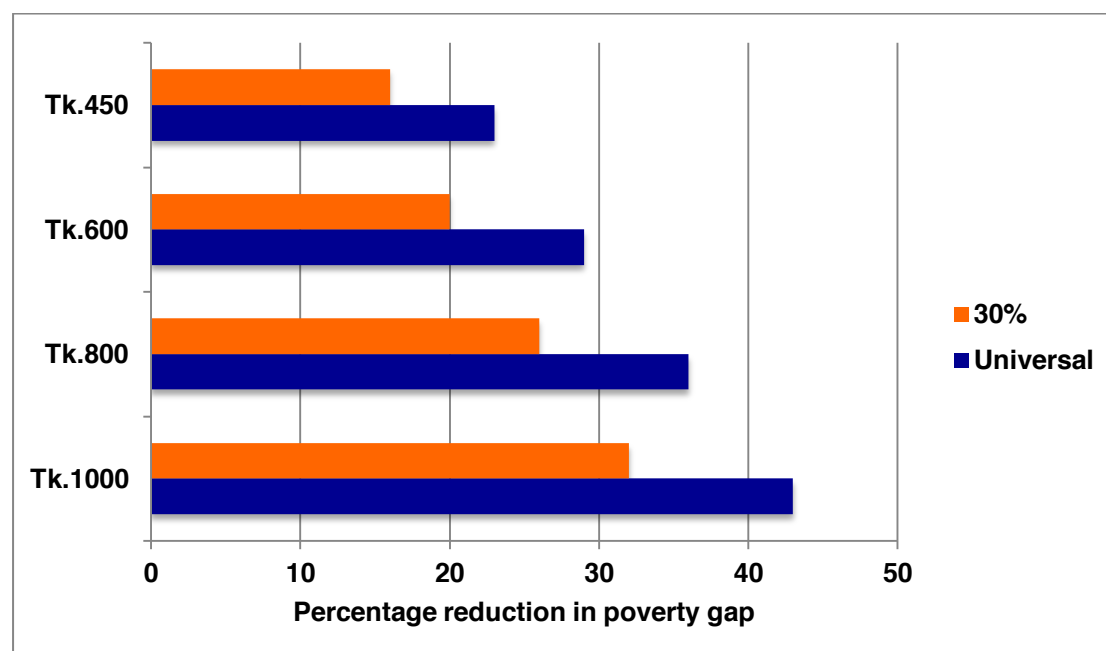
Figure 5.2 presents the results of the micro-simulations. They indicate that a universal pension at Tk.450 per month would reduce the poverty gap in beneficiary households by 23 percent while Tk.1,000 per month would almost halve the poverty gap.⁷² If the Old Age Allowance were targeted at the poorest 30 percent, the impact would be reduced by around a quarter. However, at least 27 percent of poor households with older people would be excluded (and over 30 percent using alternative assumptions⁷³). In reality, the results underestimate the exclusion of poor households from the poverty targeted option while over-estimating its impact on poverty, since during implementation significant further targeting errors will be introduced.

The options also need to be assessed against their effectiveness in improving the incomes of all households that are poor and vulnerable to poverty. As Section 3.6 indicated, the vast majority of older people should be considered as poor and vulnerable and, as they age further, their growing frailty will make many of them increasingly vulnerable. The universal option is the only one that would effectively reach everyone in this group, in particular the poorest older people. An option targeted at the poorest 30 percent would – as a result of undercoverage – necessarily exclude the majority of those who are poor and vulnerable to poverty. Nonetheless, almost all of those receiving such a targeted allowance would be poor, experiencing hardship or vulnerable to poverty – in other words in the poorest 6 or 7 deciles – so inclusion errors would be minimal.

⁷² Under different assumptions – with different equivalence scales – the impacts on the poverty gap are likely to be higher.

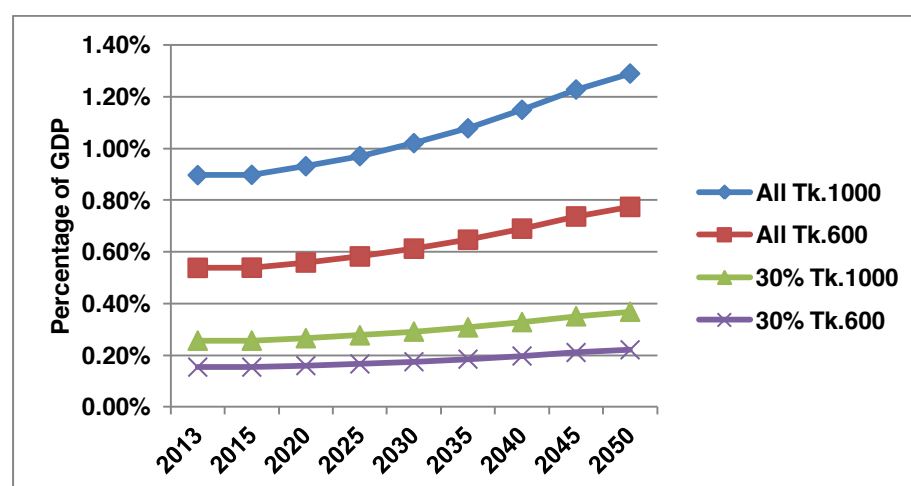
⁷³ If children aged 0-14 were weighted at 0.5 in the analysis of the household survey, then 30.4 percent of poor older people would be excluded when the 30 percent poorest are targeted, assuming perfect implementation.

Figure 5.2: Percentage reduction in poverty gap for households with over-65s, from an OAA for over-65s with various monthly benefits



There are significant differences in the costs of the options. Figure 5.3 indicates the costs as a percentage of GDP of the Tk.600 and Tk.1000 options. It also estimates the costs of these pensions up to 2050, based on the assumption of a per capita GDP growth rate of 2.44 percent per year, a pessimistic scenario considering that the trend growth rate for the past 10 years has been 4.88 percent per year.⁷⁴

Figure 5.3: Costs of Old Age Allowances as a percentage of GDP between 2013 and 2050

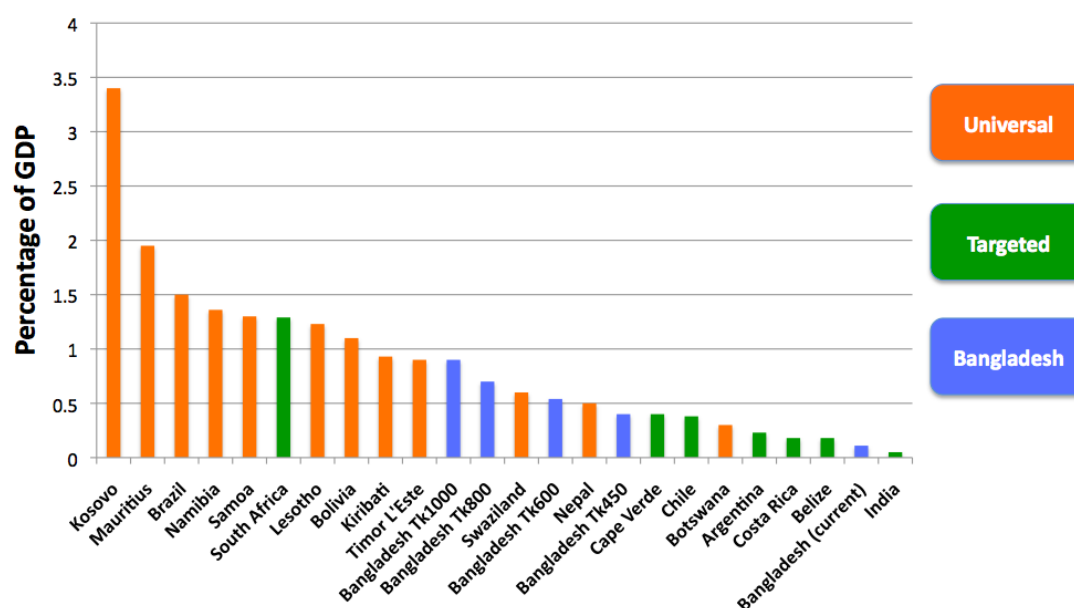


All the options would imply a significant increase in spending over current investment in the Old Age Allowance. The most expensive option – the universal pension for over-65s at Tk.1,000 per month – would cost around 0.9 percent of GDP. While this is a significant investment, as Figure 5.4 indicates, it is in line with spending in many other countries with

⁷⁴ The model used for costings also assumes that the benefit levels are indexed to inflation so that they maintain their purchasing power. However, their value as a percentage of GDP per capita will fall.

universal pensions. The Tk.450 and Tk.600 universal pensions would be relatively low cost in international comparison. Furthermore, assuming the Old Age Allowance is indexed to inflation, there will be no significant increase in cost relative to GDP, even under pessimistic economic growth scenarios. Indeed, if Bangladesh were to introduce an effective social insurance pension and the Old Age Allowance were only given to those not in receipt of another pension, the costs would be even lower.

Figure 5.4: Potential costs as a percentage of GDP of Bangladesh's Old Age Allowance – using various benefit levels – in international comparison

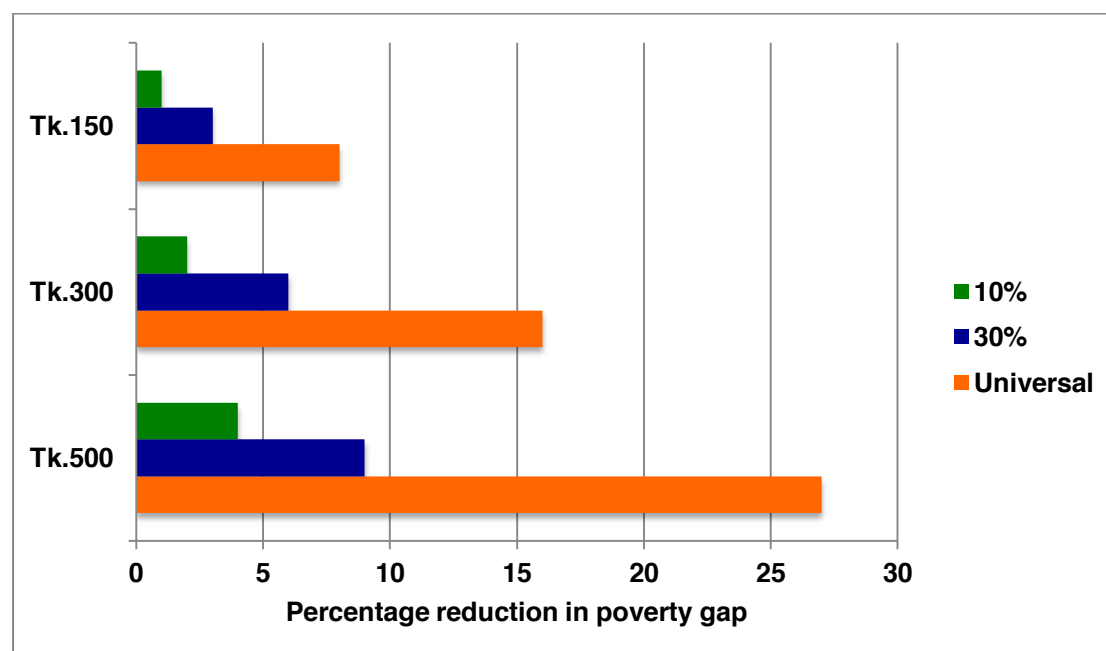


5.1.2. Micro-simulations of a child grant

As noted in Section 4.2, one of the big gaps in Bangladesh's social protection system is support for children 0-4 years, with undernutrition a significant challenge. A child grant for this age group may make a significant difference to undernutrition, providing the benefit value is sufficiently large. The World Bank report that their cash transfer program to young children – in collaboration with the Ministry of Local Government – already appears to be having a positive impact on diets, with families eating a more diverse range of food.⁷⁵ Micro-simulations were undertaken of a grant for children aged 0-4 years, with benefit values of Tk.150, Tk.300 and Tk.500 per month. Three targeting options were also tested: universal and the poorest 30 and 10 percent of children. The impacts of the various schemes are shown in Figure 5.5.

⁷⁵ Personal communication: Iffath Sharif. It should be borne in mind that transfers on the World Bank program – at around Tk800 per month per household – are larger than the transfers simulated here.

Figure 5.5: Results of micro-simulations for a grant for children of 0-4 years with various benefit levels and targeting options



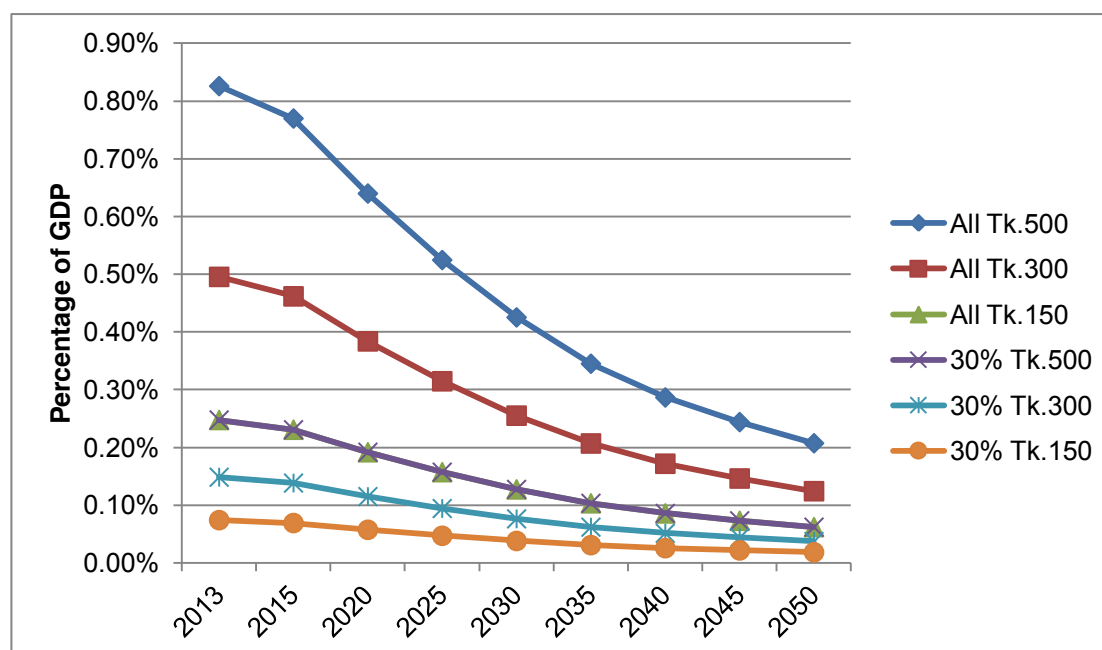
The simulations indicate that the universal grants of Tk.500 and Tk.300 would have significant impacts on child poverty, reducing the poverty gap by 27 percent and 16 percent respectively. The options targeted at 30 percent and 10 percent of children would have much smaller impacts, to a large extent because a very high proportion of poor households in Bangladesh have children 0-4s. The poverty-targeted options would also exclude a very high proportion of poor households with young children, as a result of both undercoverage and poor targeting. For example, if the grant were targeted at 30 percent of children aged 0-4 years, the best that could be attained would be the exclusion of almost 60 percent of poor households with young children. However, as with the Old Age Allowance, actual coverage will be even less, due to the additional errors that would be incurred when targeting is implemented.

As Section 3.1 indicated, around 72 percent of households with young children are either poor or vulnerable to poverty. The universal grant would be the only option to effectively reach this group. The use of poverty-targeted options would imply significant undercoverage and exclusion of many deserving households.

The costs of a universal grant for children aged 0-4 years could, initially, be relatively high, in particular at a transfer value of Tk.500 per month. However, as Figure 5.6 indicates, due to the rapid reduction in young children as a proportion of the population, costs as a percentage of GDP will drop significantly.⁷⁶ Potentially, savings could be used to extend the child grant to older children, effectively increasing the benefit level of the Primary Stipend and expanding it to all children.

⁷⁶ The assumptions used for costings are the same as those used for the Old Age Allowance.

Figure 5.6: Costs of a grant for children aged 0-4 as a percentage of GDP, 2013-2015.



A grant for young children could replace schemes such as VGD and the workfare programs. In reality, these schemes are meant to benefit families with children but, because they are directed at working age people, they raise concerns among policy-makers about creating dependency. The workfare programs also appear to harm children's nutrition. A child grant is a different means of providing a benefit to many of the same families but, because it is directed at children, it is less likely to raise concerns about dependency and may gain greater political support and higher budgets.⁷⁷

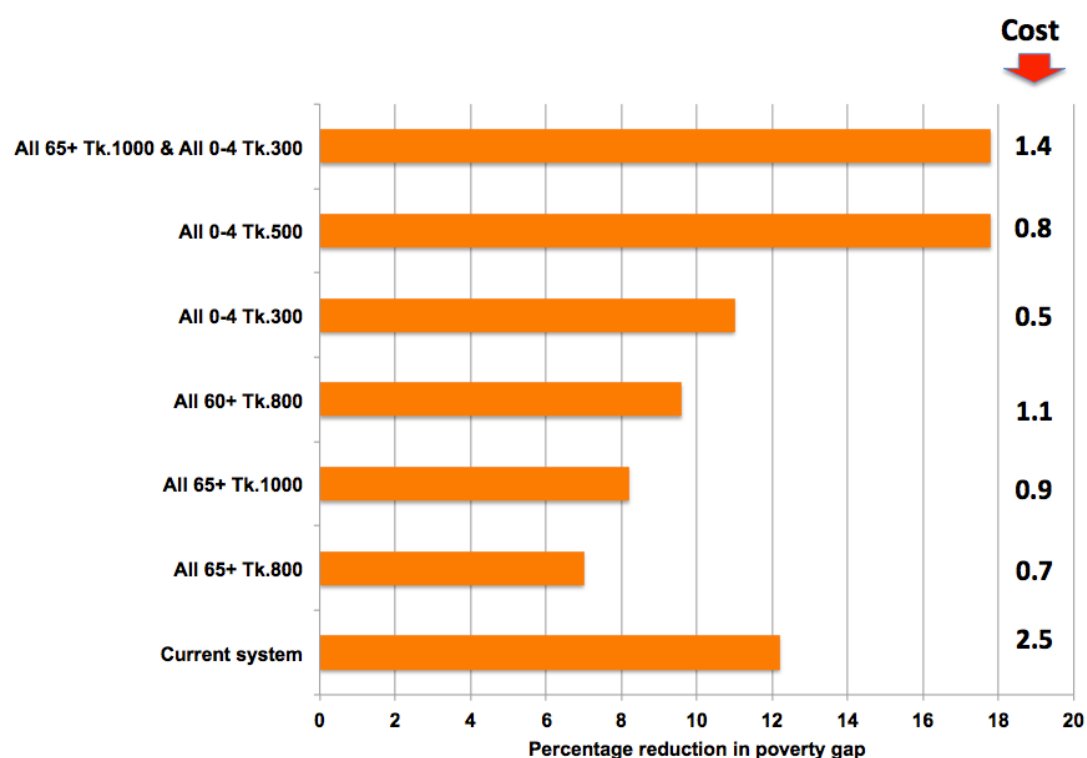
5.1.3. Impacts of old age allowances and child grant on national poverty

As noted in Section 4.3, the 2010 household survey indicates that the current social protection system reduces the national poverty gap by a only 12.2 percent.⁷⁸ The micro-simulations also measured the potential impacts of possible schemes on the national poverty gap, and a selection of results are presented in Figure 5.7, alongside likely costs as a percentage of GDP. An Old Age Allowance for all over-60s at Tk.800 per month and a child grant for 0-4s at Tk.300 per month would have impacts not much below that of the current entire social protection system, at much lower cost. The biggest impacts on poverty would be from children grants, given that young children are heavily represented among the poor. However, as Box 5.1 explains, caution needs to be taken in interpreting the results, since varying the assumptions in the household survey provides different results.

⁷⁷ There are often concerns raised that grants for young children may encourage higher rates of fertility. However, as Fiszbein and Schady (2009) argue, there is no evidence of this, in particularly at the low level of benefit suggested in this paper.

⁷⁸ As noted in Section 5.3, this may well underestimate the true impact of these schemes as a result of problems with the household survey.

Figure 5.7: Reduction in poverty gap from various social protection schemes as well as cost as a percentage of GDP⁷⁹



Box 5.1: Influence of alternative assumptions on the results

The results in Figure 5.7 are highly sensitive to the assumptions used in the household survey and it would be unwise to compare child grants and old age pensions. For example, if an equivalence scale of 0.5 for children aged 0-14 is used, the impact on the national poverty gap of a child grant for 0-4s at Tk.300 per month would be 8.2 percent, while the impact on the national poverty gap of an old age pension for over-65s at Tk.1000 per month would be 9.8 percent, effectively reversing the result in Figure 5.7. For comparison, the impact on the national poverty gap of a child grant at Tk.500 per month would be 13.1 percent.

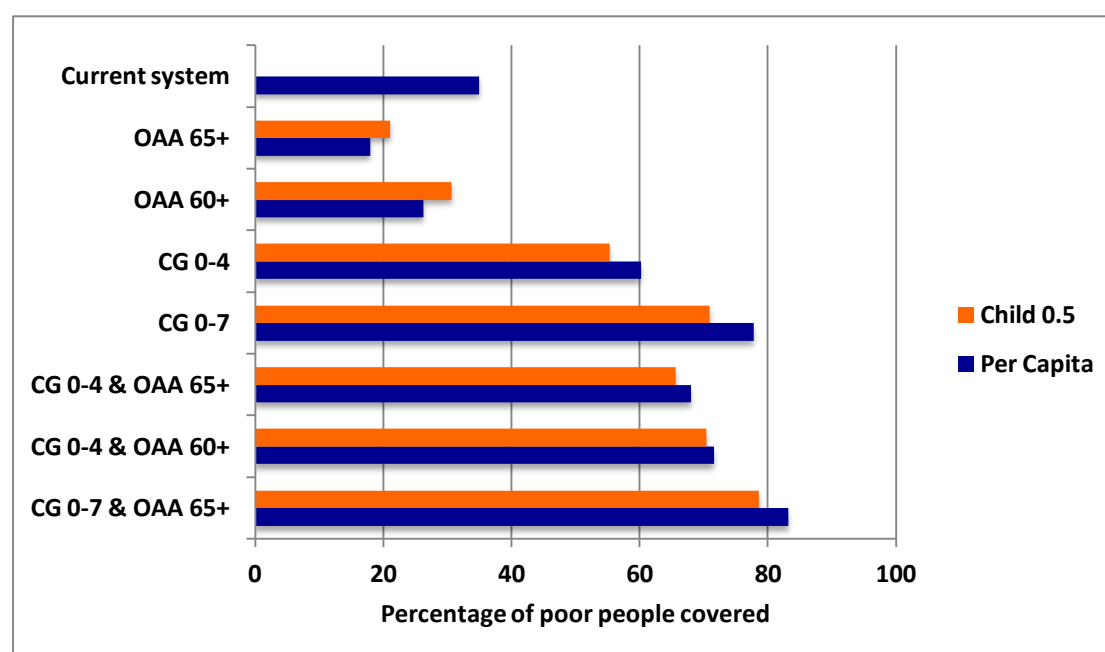
Furthermore, the impact on poverty should not be the only criteria used to assess the value of social protection programs, with micro-simulations offering a very narrow measure. For instance, they do not measure the positive impacts on dignity of an old age pension, the reduction in “informal care taxes” placed on working families who are obliged to support their elderly parents, or the ability of recipients of programmes to access credit and invest in productive activities. Of critical importance is an assessment of how well schemes would be received politically, and the likelihood of their being scaled up to a level at which they would begin to have meaningful impacts. It is important, therefore, not to simplistically assess one scheme against others, but to recognise the important role that each could have within a broader national social protection system.

Given the ineffective targeting of the current social protection system – with a large proportion of poor households missing out – it is helpful to examine how well universal lifecycle programs would perform in reaching poor households. Figure 5.8 indicates the proportion of poor people that would be reached by the different schemes, including

⁷⁹ These results use adult equivalent equivalence scales.

combinations of schemes. While current social protection programs reach only around 35 percent of poor households – and 25 percent of all households – a universal old age allowance for over-60s would be almost as effective as the current entire national social protection system in reaching poor people⁸⁰ (just over 30 percent of poor people). Child grants would be significantly more effective while a combination of child grant and old age pension would out-perform the current system significantly.

Figure 5.8: Percentage of poor people across Bangladesh covered by various social protection schemes using two equivalence scales⁸¹

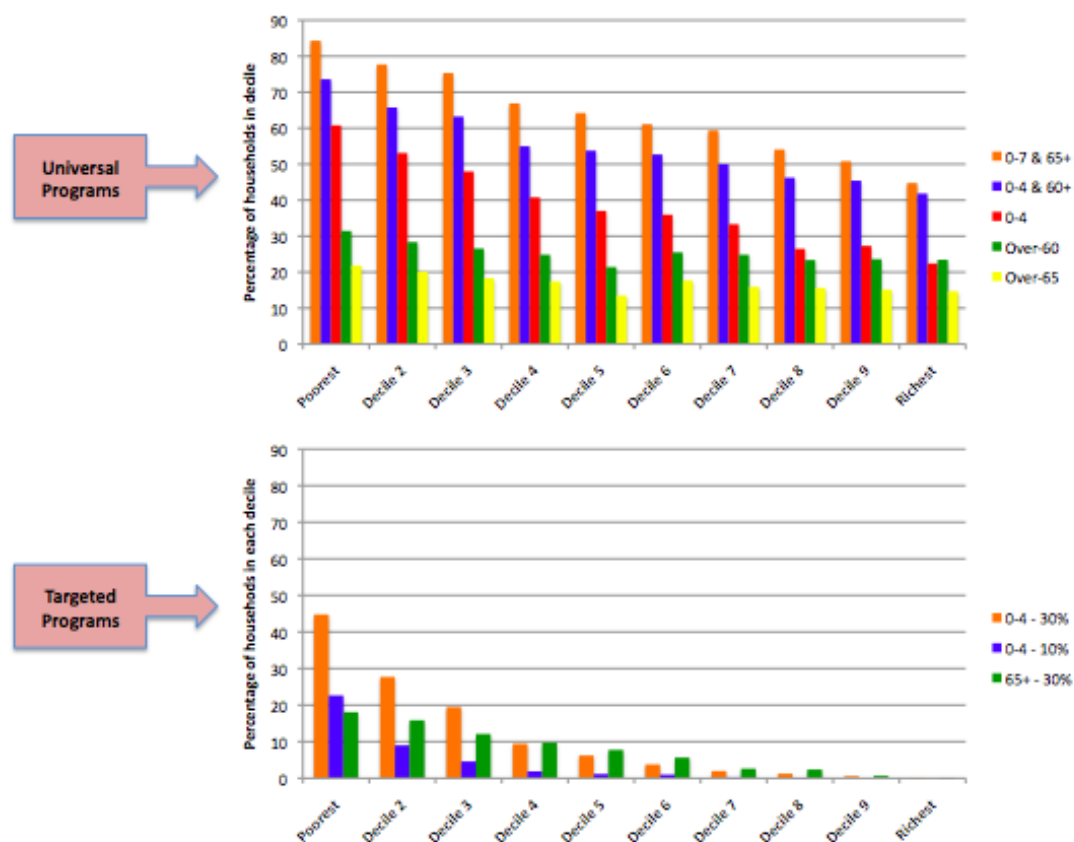


An alternative measure of the coverage of social protection schemes is to examine the proportion of households reached in each decile. Figure 5.9 presents results from a variety of potential universal and poverty targeted programs. It indicates that all universal schemes ensure not only coverage of the very poor but also all those in the middle deciles who are experiencing hardship or are vulnerable to poverty and, indeed, would be considered as poor under a poverty line equivalent to US\$2 per day. In contrast, poverty targeted programs – even if perfectly implemented – would cover a much smaller proportion of this particularly vulnerable population in the middle deciles.

⁸⁰ The figure for reaching poor households is based on results using an equivalence scale of 0.5 for children aged 0-14 years.

⁸¹ The poverty line used for the per capita equivalence scale is the BNPL. For the equivalence scale with children 0-14 measured at 0.5 of an adult, the poverty line is the BNPL x1.2.

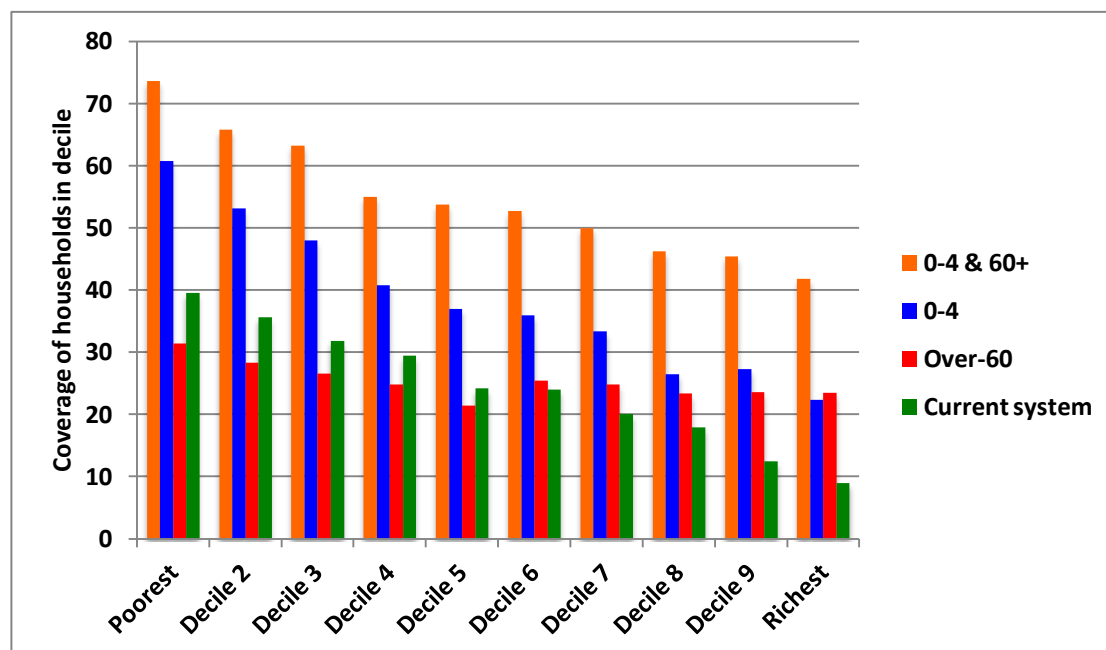
Figure 5.9: Coverage of households in wealth deciles by different schemes, both universal and poverty targeted



The coverage of universal options could also be compared to the coverage across the wealth deciles of the current system. As Figure 5.10 indicates, the combined option and the child grant alone perform significantly better than the current system. Furthermore, while an old age pension for over-60s would reach slightly less households than the entire current social protection system among the very poor, it would be just as effective in reaching those in the middle deciles who are vulnerable to poverty.

When examining policy options for the future, it is important to bear in mind the political economy of social protection. While simulations can be undertaken of higher transfer values, it is unlikely that the poverty-targeted options would be able to deliver the political support for these higher transfers. Governments are more likely to provide higher transfer values in universal, inclusive schemes, as they will gain larger political rewards from this. While the wealthier could choose to access inclusive schemes – although many may not bother to apply – poor families would be the main beneficiaries of these higher transfer levels.

Figure 5.10: Comparison of coverage of wealth deciles between current social protection system and simulated options



There is, therefore, significant scope for social protection schemes in Bangladesh to have greater impacts, not just on poverty but in other areas such as human development and economic growth. Box 5.2 provides a summary of the potential indirect impacts of social protection on economic growth.

Box 5.2: Potential impacts of social protection on economic growth⁸²

The main purpose of social protection is to reduce poverty and strengthen the resilience of poor and vulnerable families through transfers that increase incomes. Yet, this comes at a cost, which is usually financed either through taxation or via contributions from individuals. While there are schools of thought that believe these costs can impact negatively on growth, in developed countries it has been accepted for decades that investment in social protection – which averages 14 percent of GDP in OECD countries – is complementary to successful economic growth strategies. Indeed, those countries with the highest investment in social protection – such as the Nordic countries and Germany – tend to be among the most successful economies,

It is increasingly recognised in developing countries that a secondary impact of well-designed social protection is a positive impact on economic growth, although evidence on the level of impact is still not robust. There are a number of pathways by which social protection can contribute to economic growth, and these will be discussed across three levels: the household, the local economy and national level.

At the **household** level, families often use social transfers to help them invest in income generating activities. By knowing that basic consumption is secure, it builds their confidence to invest, while also providing them with investment capital (including greater ability to access credit). Some families invest in higher risk and higher return activities. In a crisis, if families receive regular transfers they are less likely to sell their assets and can, therefore, recover their productive capacity more quickly. Having access to regular cash support can help people access employment by, for example, subsidising the costs they incur in taking work. This is particularly important for people with disabilities who experience additional costs in accessing work. Often, older people in receipt of transfers can take on childcare responsibilities enabling younger women to remain in the labour force.

Importantly, social transfers enable families to build the human capital of their children by improving nutrition, helping them attend school and perform better, and by covering costs of health care. In the long-term, this will improve the quality of a country's labour force, which should be good for business.

In the **local economy**, providing cash to poor and vulnerable families can increase consumption and stimulate local economic activity. This can include benefiting non-recipients who often sell their products and services to recipients of transfers. Workfare programs can be used to construct and maintain assets that facilitate local economic activity.

At the **national** level, well-designed social protection can build social cohesion, which is important for the business environment. Indeed, social protection is often used to facilitate macro-economic reforms by compensating losers and reducing social conflict. Social protection – such as unemployment programs – is also essential to building a flexible labour market. If transfers are large enough, the aggregate increased demand can provide a macro-stimulus to the economy. Contributory pension schemes can offer an important source of investment funds.

Of course, poorly designed social protection can impede growth. Schemes that create perverse incentives and encourage people to remain poor or discourage them from saving can harm the economy. Furthermore, the impact of social protection will depend on the level of investment. Schemes that are small and focused on only a small proportion of the population are unlikely to generate significant demand and consumption. And, while social protection can be a major factor in reducing inequality – which should be good for economic growth – this will only happen if investment in social protection is sufficiently high.

⁸² For evidence, see: DFID (2006; 2011), Barrientos and Scott (2008), DFID (2011), Dercon (2011), and Alderman and Yemstov (2012).

5.2. Options for reformed social protection governance in Bangladesh

At present, a number of Ministries have responsibilities to oversee and deliver social protection schemes. For some, such as MoPME and the Ministry of Education, it is not their core business. There is no overall government lead on social protection policy. Indeed, it is only recently that social protection has begun to be recognised as a sector.

Potential reforms to the governance of social protection in Bangladesh could focus on the following three areas:

- ***Identifying a Ministry as having the overall lead on social protection policy and coordination.*** This may imply a coordinating body such as the Ministry of Finance or Cabinet Secretariat taking on this role, an existing Ministry could be strengthened and given the responsibility, or a new Ministry of Social Development/Security could be formed that assumes the functions relating to social protection of a number of Ministries. If an existing Ministry were to become responsible, the most likely candidate would be the Ministry of Social Welfare as it already has responsibility for a number of core social protection schemes. However, its mandate would have to be significantly strengthened and, in reality, the real lead on policy would remain with the Ministry of Finance, given its control over budgetary allocations.
- ***Consolidating schemes into fewer Ministries.*** Current schemes could be removed from Ministries that have no comparative advantage and transferred to those that are more directly responsible for social protection. The education Ministries, for example, could transfer the stipend schemes to the Ministry of Social Welfare so that they can concentrate their efforts on education. Alternatively, an agency with responsibility purely for delivering social protection schemes could be created, under the responsibility of a lead Ministry. Significant economies of scale could be achieved by consolidating schemes within a smaller number of Ministries or agencies, which could develop a cadre of specialised staff to run the schemes.
- ***Consolidating responsibilities at local level.*** At present, schemes are delivered at local level through a mix of local and central government agencies. One option would be to create a professional social protection service that delivers a range of schemes at local level, reporting directly to central government, since social protection is more of a central government than local government responsibility. This could remove the opportunity for local elites to use programmes for patronage purposes and enable more effective delivery systems to be established. A professional agency could recruit high calibre and well-trained staff.

5.3. Strengthening social protection management and delivery systems

As Section 4.6 describes, current systems for delivering social protection schemes are weak, in particular management information systems (MIS), selection and registration mechanisms, grievance schemes and the delivery of cash. A potential area of reform would be to focus on strengthening these systems, taking advantage of new technologies, where feasible.

A critical area for improvement is the MISs of schemes. At present, management information systems are relatively simple and inefficient. Software for databases does not appear to be particularly advanced and there are no electronic connections between local

areas and central government. At local level, it is likely that paper-based systems or simple software is used, with hardware – such as computers – in short supply.⁸³ As a result, central government does not have a central registry of recipients. Monitoring through the MIS is, therefore, much less effective and limitations are placed on mechanisms for delivering cash to recipients.

Other basic operational tools appear to be deficient. There is no evidence of up to date operations manuals and training materials for staff. Indeed, training seems to be limited, with little professionalization of staff at local level. While cash is often delivered through banks, it is managed at local level so that government cannot take advantage of central tendering to drive down costs and improve efficiencies. It is almost certain that more could be done to deliver cash in a way that enables recipients to have greater access to other financial services.

Overall, therefore, there is significant room for improvement across a number of areas, although this would require significant investment. Building a professional service at local level – as indicated in Section 4.7 - would be an integral component of reform to systems.

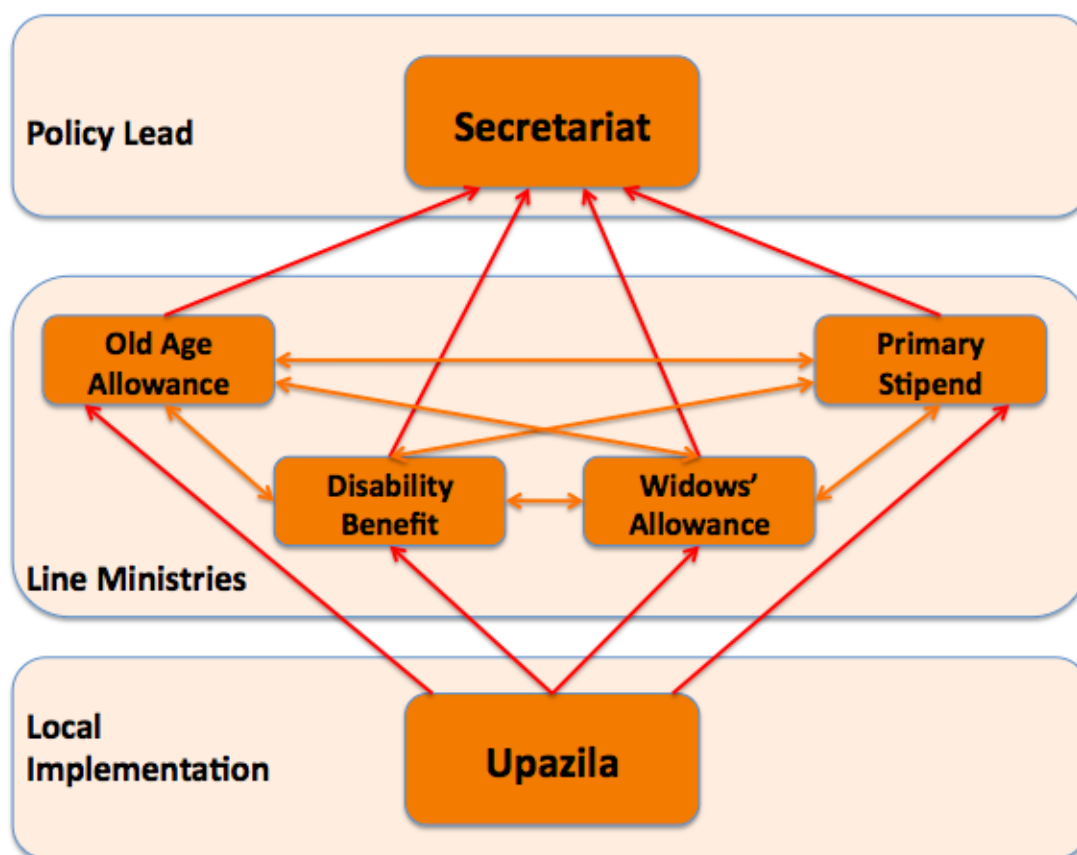
Figure 5.11 indicates how various reforms at local and central levels could begin to be linked together as part of an improved and interconnected MIS. At local level, a professional team could be established that would be responsible for local operations across a range of schemes. They would be able to input data to one MIS interface that would hold a number of databases for specific schemes. This information could be uploaded via the mobile phone network to databases in the lead Ministries for each scheme. The databases for all schemes could also provide common information to the national lead agency responsible for monitoring social protection implementation so that the lead Ministry – and Cabinet – could receive regular and common reports. Such a system would maintain the autonomy of each scheme – and their Ministries – while also providing greater coherence at local level. However, one Ministry should be given responsibility for overseeing local delivery of all social protection schemes, which would be managed by local teams of professionals.

Once an effective national MIS is established, then a range of other operations could be improved to align with it. An important initial step, however, would be a more detailed study to determine the costs of undertaking comprehensive improvements.

There are already some initiatives underway to improve systems, such as the development of a national database that can be used for targeting. However, there are a number of potential challenges with such schemes. The first is that there is no indication that a comprehensive analysis has been undertaken of the causes of poor targeting. While it is commonly assumed that “corruption” is a major cause, as Section 4.5 indicates, the reasons are likely to be more complex. Unless these are understood, any reforms to targeting may fail.

⁸³ A more detailed assessment of MISs needs to be undertaken, and the information presented here is from very initial impressions.

Figure 5.11: Organisation of a potential national management information system⁸⁴



The second challenge will be the use of the proxy means testing methodology. As Kidd and Wylde (2011) have demonstrated, this is an inaccurate targeting mechanism. Figure 5.12 indicates potential exclusion errors at different coverage rates, based on analysis of the 2010 household survey. Since these results do not include errors introduced through implementation – which can be considerable – they should be regarded as underestimates. The results indicate that, when the poorest 10 percent of the population is targeted, the minimum exclusion error is 55 percent; when coverage is 30 percent, the minimum exclusion error would be 35 percent.

Box 5.3: Causes of in-built errors in the PMT methodology⁸⁵

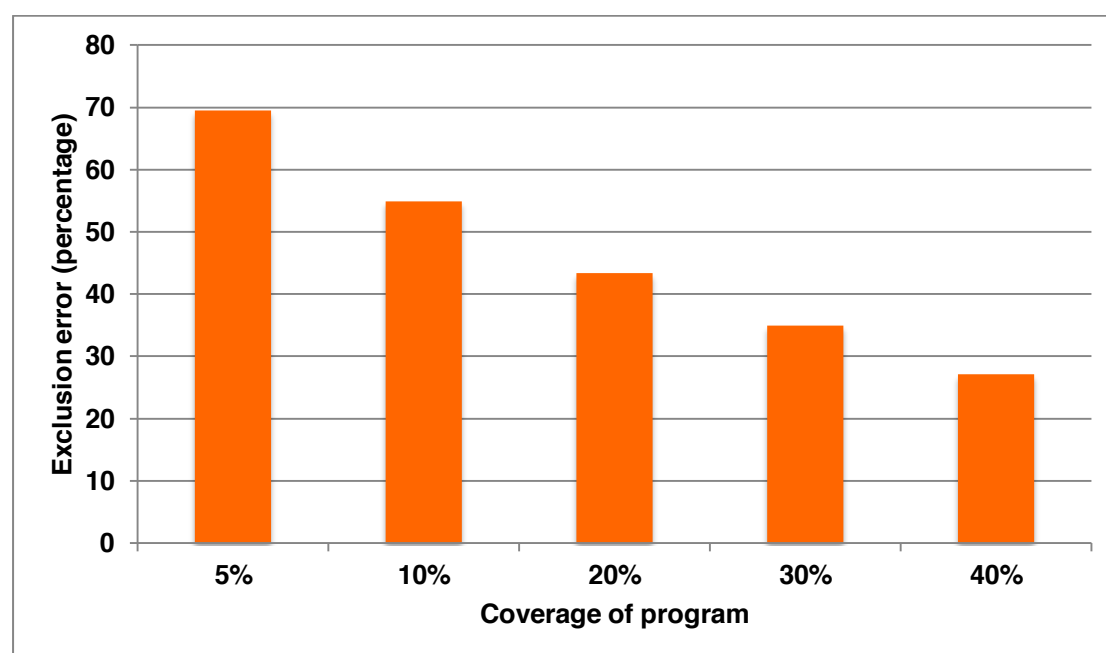
The PMT methodology is based on the concept that household income bears some correlation to their assets, which can include housing, household items, productive assets and personal characteristics (such as age or education). However, although multiple correlations are derived using the household survey, R-squared values are relatively low (usually between 0.4 and 0.6).⁸⁶ The weak correlation is the main cause of inaccuracy and arbitrariness of selection. The R-squared for the Bangladesh PMT is 0.54.

⁸⁴ A selection of schemes only is indicated here. Further schemes could be included.

⁸⁵ See Kidd and Wylde (2011) for a more in-depth explanation of the causes of errors in the proxy means test methodology.

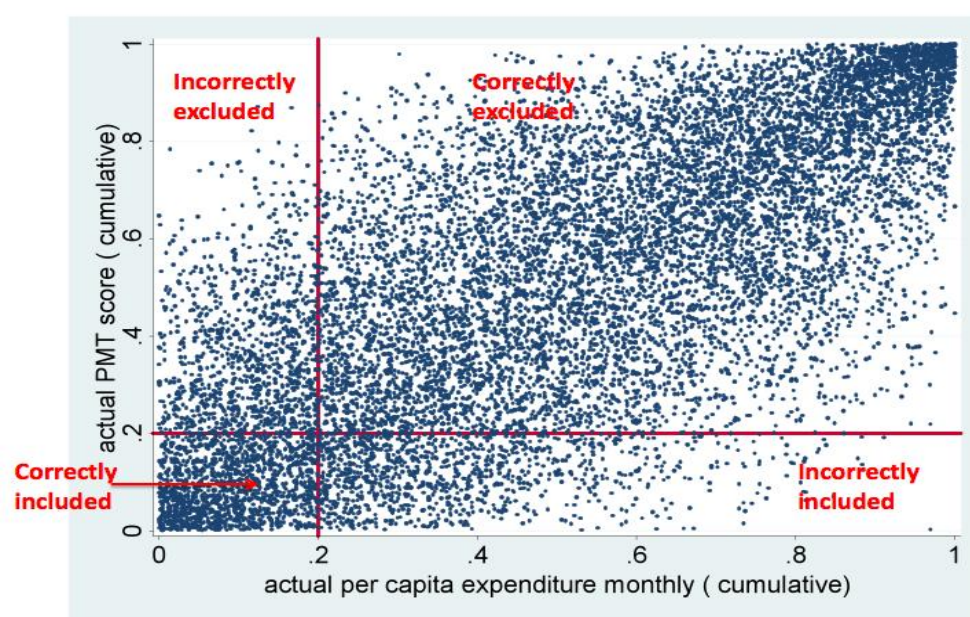
⁸⁶ Kidd and Wylde (2011).

Figure 5.12: Theoretical exclusion errors for the Bangladesh proxy means test



Furthermore, the proxy means test targeting mechanism is relatively arbitrary in its selection, as indicated by the scattergraph in Figure 5.13. The scattergraph uses the 2010 household survey to rank the population by consumption (on the X axis) against consumption predicted by the PMT (on the Y axis). The large scatter indicates the relatively low correlation between the proxies and consumption since, if the methodology were perfectly accurate, the dots would be in a straight line from bottom left to top right. In effect, the PMT methodology functions as a rationing mechanism: it can choose relatively effectively – though arbitrarily – a small number of poor households from a much larger number, but exclusion errors will always be high when coverage is low.

Figure 5.13: A scattergraph plotting household consumption against household consumption predicted by the PMT



Errors are further introduced into the PMT in a number of ways. Implementation is often problematic. Even if done according to guidance, international experience indicates that it has proven difficult to undertake accurate surveys in the allotted period of time.⁸⁷ Furthermore, given that PMT targeting is usually undertaken every 5-10 years, accuracy degrades over time as household incomes and consumption can change rapidly.

The PMT targeting methodology should only be used for household transfers. It is much less appropriate for individual social protection benefits, since it is unable to differentiate between incomes of particular members of households. Indeed, it cannot even differentiate between families within households. Consequently, it should not be used for benefits such as the Old Age Allowance, Disability Benefit and Widows' Allowance.

The relatively arbitrary targeting of the PMT results in it being perceived by community members as a lottery, which, to a large extent, merely reflects the methodology. This often leads to a weakening of social cohesion in communities, as people cannot understand why many poor people are excluded and some wealthier families are included. Potentially, this can result in social conflict and a reduction of social capital, which may militate against any benefits that are gained from the transfer itself.⁸⁸

The PMT is often promoted as an "objective" form of targeting that could stop selection being used for patronage purposes. However, this presumes that enumerators will not manipulate surveys. Yet, there are instances of local enumerators manipulating scores during surveys.⁸⁹ Therefore, the PMT would only be able to function "objectively" in Bangladesh if, first of all, there were a reform of governance and scheme management at local level through the type of professionalization suggested in Figure 5.11.

Therefore, while improving processes for selecting recipients of social protection schemes is important, it is more complex than merely introducing a methodology such as the PMT. Furthermore, different schemes could merit different forms of targeting – in some, for example, universal targeting may be more appropriate – and targeting can never be divorced from complementary improvements to systems and staff capacity. Indeed, these may be more important than an improved targeting methodology.

5.4. New approaches to social protection

While there is significant room for expansion of current lifecycle social protection schemes, Bangladesh could also consider establishing alternative approaches. Two strong candidates would be a contributory pension scheme and free childcare.

5.4.1. A contributory pension scheme

Although Bangladesh has a Provident Fund, membership is limited and the scheme functions only to provide savings for retirement, rather than as a pension. Given the rapid ageing of the Bangladesh population, consideration should be given to establishing a contributory – or social insurance – old age and disability pension to complement the Old Age Allowance. Indeed, a proposal to explore the possibility can already be found in the Sixth Five-Year Plan.

⁸⁷ See: GHK (2009), Kidd and Wylde (2011) and SMERU (2011).

⁸⁸ See: Adato (2000), Kidd and Wylde (2011), Hossain (2012) and Widjaja (2009).

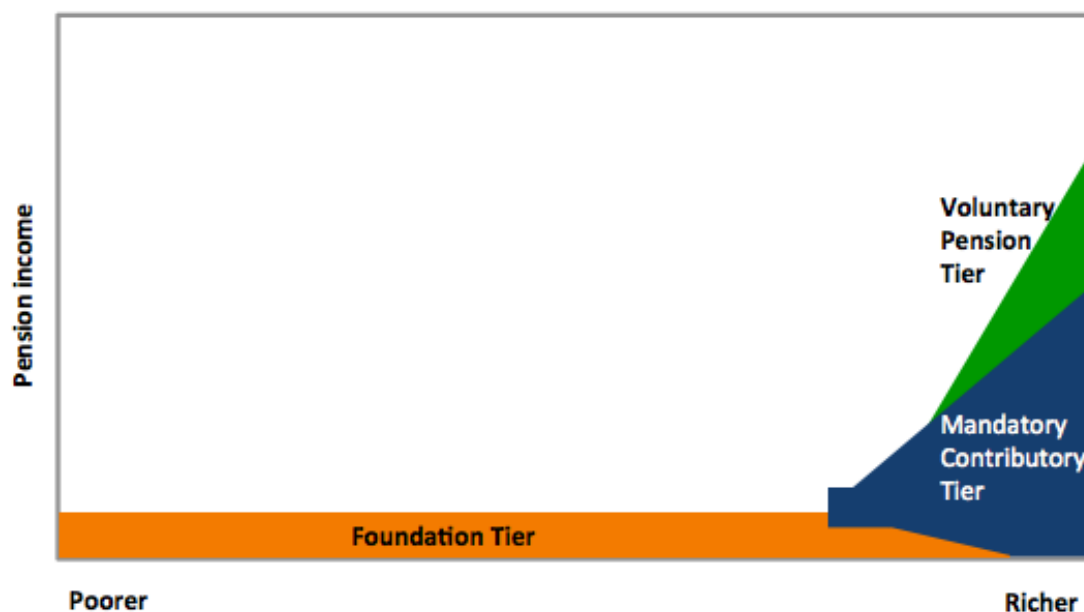
⁸⁹ See Hodges et al. (2007). Also, in one South-East Asian country good evidence of significant manipulation by local enumerators has been found, although the results have not been made public.

A social insurance scheme could bring a number of advantages. It would enable those with sufficient income to save for their old age, with the guarantee of a higher standard of living in their final years than could be achieved by the Old Age Allowance alone. While the scheme may initially only be accessible to those in the formal sector, over time it may be possible to incorporate some informal sector workers, with the scheme expanding over time.

An important second advantage would be that the savings from members should generate a very significant fund. As in many other countries, this fund could be used to invest in business within Bangladesh, providing an important boost to the economy.

Reforms to the Old Age Allowance and the establishment of a social insurance pension could be taken forward in parallel. Both schemes would be complementary, enabling universal old age pension coverage. The Old Age Allowance could act as the foundation tier of the pension system, providing the guarantee of access to a pension. However, some people would use the social insurance scheme to practise consumption smoothing over their lifetimes. A pension system could be developed similar to that depicted in Figure 5.14. Everyone could be guaranteed a minimum income in old age while those in receipt of a social insurance pension would have their state pension – the Old Age Allowance – progressively reduced. Over time a third tier of voluntary private pensions could be developed, ensuring additional access to savings and income in old age for the minority of the population that has excess income during their working lives.

Figure 5.14: A potential pension model for Bangladesh



5.4.2. Childcare services

There is growing evidence that the provision of free childcare is one of the most powerful tools for reducing child poverty in developed countries.⁹⁰ Currently, there is limited state-supported childcare provision in Bangladesh, although the Ministry of Women and Children runs some childcare centres in Dhaka. As women increasingly enter factories and other

⁹⁰ See Kidd (2012).

forms of employment, the demand for childcare services will rise. An effective system of free or heavily subsidized childcare should enable women to continue in the labour force after giving birth, and could contribute significantly to reducing poverty – and, potentially, to improving child nutrition – especially in urban areas. Potentially, childcare may be beneficial in rural areas, although old age pensions could also strengthen informal childcare provision.

Childcare could begin to pay for itself if the tax system is able to effectively capture part of the additional income generated by women returning to work and the increased productivity of factories. It would certainly help Bangladesh deal with its current shortage of skilled labour.

6. CONCLUSION

Bangladesh's level of investment in social protection is on a par with many middle-income countries. Yet, the system as a whole does not deliver the impacts that it could. There is significant scope for Bangladesh to increase the effectiveness its social protection system without any increase in investment. However, any significant change is likely to require a paradigmatic shift in thinking away from a system that targets resources at the extreme poor – and, as a result, generates limited political support – to one that is more inclusive and covers all those who are poor, experience hardship and exclusion and are vulnerable to falling into poverty. By continuing progress towards an inclusive lifecycle system of social protection, Bangladesh will be able to establish a system that is both fit for a middle income country and enable the country to achieve middle income status.

A comprehensive national system of social protection is an essential component of an effective market economy. This report has highlighted a range of challenges in the current system while also proposing a number of key reforms that would begin to bring about significant and positive change. Realistically, the experience of both developed and developing countries indicates that it takes decades to establish effective and comprehensive systems. Bangladesh, however, has made a good start: it now needs to continue making progress even if that means taking difficult political decisions.

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