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ECONOMIC DEVELOPMENT AND SUBSTANTIAL POVERTY REDUCTION IN SOUTH ASIA SPECIAL CASE BANGLADESH

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ABSTRACT

Nobody can touch the poverty but only feel it, so to understand poverty it is essential to go through it. The purpose of this study is to make justification about substantial poverty reduction by achieving higher economic development in Bangladesh. For long-term development it is essential to build up investment environment by giving emphasize on macroeconomic fundamentals.

South Asia's recent economic development with proper macroeconomic management can act as a catalyst for large-scale poverty reduction. For example, South East Asia made stunting progress in poverty reduction by accurate policy management with effective governance.

Poverty is basically a rural problem in South Asia. Within this sub-region, poverty incidence in Bangladesh is very acute. Despite of this legacy Bangladesh achieved on averaged 5% growth in GDP, while national poverty fell from 59% to 50%, infant mortality was halved and life expectancy increased from 56 to 65 years, the vast majority of children now attend primary school, and gender parity has been achieved in primary and secondary education with a committed government policy for girls' education. At present Bangladesh is confronting with ineffective governance, corruption, and political instability. Unfortunately Bangladesh doesn't have any committed political leader to build up a nation like Malaysia, which is standing example for Bangladesh to follow her policy to reduce poverty in a substantial amount by stable and steady economic growth.

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ABBREVIATIONS

ADB	Asian Development Bank
AID	Assistance for International Development
AIDS	Acquired immunodeficiency Syndrome
APT	Analysis of Poverty Trend
ASEAN	Association of South East Asian Nations
BBS	Bangladesh Bureau of Statistics
BIDS	Bangladesh Institute of Development Studies
BOI	Board Of Investment
CBN	Cost of Basic Need
CGSD	Centre on Globalisation and Sustainable Development
c.i.f	cost, insurance and freight
CPRC	Chronic Poverty Research Centre
DAC	Development Assistance Committee
DCI	Direct Calorie Intake
DFID	Department For International Development
DOTS	Direction of Trade Statistics
FDI	Foreign Direct Investment
f.o.b	free on board
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
GOB	Government of Bangladesh
HDR	Human Development Report
HES	Household Expenditure Survey
HIES	Household Income Expenditure Survey
HIV	Human Immunodeficiency Virus
HYV	High Yielding Variety
ICT	Information and Communication Technology
IFS	International Financial Statistics
IMF	International Monetary Found

IMR	Infant Mortality Rate
IRRI	International Rice Research Institute
IT	Information Technology
LDC	Least Development Country
MDG	Millennium Development Goal
MFA	Most Favoured Nation
MMR	Maternal Mortality Ratio
NDP	National Development Policy
NEP	New Economic Policy
PCP	Private Consumption Poverty
PPRC	Power and Participation Research Centre
PRC	People's Republic of China
RMG	Ready Made Garment
SA	South Asia
SAARC	South Asian Association for Regional Cooperation
SAER	South Asian Economic Report
SOE	State Owned Enterprises
SSA	Sub-Sahara Africa
TB	Tuberculosis
UNDP	United Nations Development Programme
VAT	Value Added Tax
WESP	World Economic Situation and Prospect

ABBREVIATION OF COUNTRY NAMES

BAN	Bangladesh	NEP	Nepal
BHU	Bhutan	PAK	Pakistan
IND	India	PHI	Philippines
INO	Indonesia	SRI	Sri Lanka
MAL	Malaysia	THA	Thailand
MDV	Maldives		

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INTRODUCTION

The Aim Of The Study

The aim of the study is to analyze the importance of economic development and the effectiveness of activities, which are being carried out by the government and various non-governmental organizations in different dimensions, which are consenting to the aftermath of development progresses acknowledged to the substantial poverty reduction.

The Hypothesis Of This Study

The hypothesis of this thesis is — "The current macroeconomic management of South Asia especially Bangladesh requires more reforms for sustainable economic growth". The present century is denoted as 'Asian Century' for its remarkable economic growth, but poverty in the main impediment (obstacle) for this in this development race. So combating impoverishment is a phenomenon, which is barely severe in the daily life of poor. But country like Bangladesh equal income distribution is not clinically diagnostic first factor to adopt to get out from poverty rather than achieving rapid and steady economic growth like Malaysia. So to over come impoverishment macroeconomic stability and investment environment are rather bearing much more attention before government to achieve the Millennium Development Goals.

Scope Of The Study

This study includes the development story of ASEAN-4, People's Republic of China, and South Asia with special consent about Bangladesh. Bangladesh is one of the propound member of the SAARC and neighbor of India, which is at present one of the fastest growing dynamic economy in the world.

So there is lots of scope to develop intra and inter regional trade with in the region and these types of activities or steps can play role for the poverty reduction in the SAARC area.

State of Bangladesh is not too strong to compete individually in international market with stable economy. So here is more room for further research. Instead of all, there are many tasks which are pending for governments of South Asian countries especially for Bangladesh to bloom up with cordiality, transparency and efficiency to attract huge FDI and the consequence is more income.

Method Of Study

Bangladesh is highly dense populous country and till more than 74 percent inhabitant are living in rural areas in which most are exhibiting acute poverty. With deep consent on these mass poor population every researcher has to devote more concern for the interest of large scale research to find out way to over come from chronic poverty and at the same time it is also essential to develop strategy for the pro-poor. The present performance of Bangladesh is quite prospective on various indicators. For example, Bangladesh has experienced on average 5 percent annual economic growth in the last five years. Simultaneously, it has demonstrated rapid reduction in poverty incidence and a good performance against health and education targets, per capita GDP is $410 and 63 million people remain in poverty (DFID Evaluation Report, 2006). Bangladesh poor governance record is a continuing concern, which is discuss in details in this thesis.

I tried to draw a comparative elucidation in between Bangladesh, Malaysia and South Asia in respect to economic development and poverty reduction.

Lots of literatures are studied; Poverty Reduction Strategy Paper are taken into consideration, the websites of different multinational organizations like World Bank, IMF, ADB, UNDP, OECD etc are used extensively including some books to augment this thesis into hard format.

Limitation

The data, which are analyzed into this thesis, are collected from secondary sources. But the topic like — "Economic Development and Substantial Poverty Reduction in SA — especial case Bangladesh" – is demanding current primary data for more clear snap. For Bangladesh- especially- it is very rare to get recent data from government websites.

Structure Of The Study

The research begins with an introductory part and there after the main literature. Within the main, chapter one represents the South Asian Economy with the World and at the same time the poverty scenario of SA and Bangladesh. The rapid macroeconomic development with equitable growth is the task to accomplish to reach the Millennium Development Goals and the second chapter has this macroeconomic information. Profiling poverty is discussed in chapter three. Not only economic growth but also stability, fiscal policy, government effectiveness and technological development have great concern for poverty reduction which are cited in forth chapter. Fifth chapter is depicting the development story of Malaysia and last chapter illustrates a comparative analysis of economy and poverty within Bangladesh, Malaysia and South Asia.

CHAPTER ONE

WORLD ECONOMY AND SOUTH ASIA

1.1 An Over View

The world is full of problems-debt, unemployment, food shortages, environmental degradation-that are rooted in the structure and development of the world economic system. An understanding of the reasons for the problems in the world economy begins by recognizing its domination by developed countries and the existence of an international economic order established a framework for an international economic system. However, overall development is the precondition to get out not only from the above-mentioned problems but also from other unexpected catastrophes and especially from poverty.

World development implies progress toward desirable goals. It is a concept full of hope and enthusiasm. The purposes of development are to improve the quality of human lives- that is to improve secure jobs, adequate nutrition and health services, clean water and air, cheap transportation and education. Whether development takes place depends on the extent to which social and economic changes and a restructuring of geographic space help or hinder in meeting the basic needs of the majority of people.

The world economy has changed in very significant ways during the past several decades, and these changes are rooted in how the global economy is organized and governed. These transformations affect not only the flows of goods and services across national borders, but also the implications of these processes for how countries move up or down in the international system. The development strategies of countries today are affected to an unprecedented degree by how industries are organized and government intervention.

The past five hundred years of global history have been characterized by changing patterns of global dominance. In the late 16^{th} century, China accounted for around 30 percent of global GDP, compared to a share of around 20 percent of Western Europe and less than 5 percent of Japan; at that time, North America barely featured as a production base (Dahlman and Aubert, 2001).

From the late 20^{th} century Asian economies, with more than half of world population, began to play an increasingly important role as global producers. This revival began in Japan after the 1960s, and then spread to a limited number of small and medium-sized East Asian economies during the last quarter of the century. At the dawn of the new millennium the momentum of Asia has been significantly strengthened by the very rapid growth to very large economies – China and India; each with around 20 percent of the global population have been sustain mostly 8 percent rate of annual economic growth (Kaplinsky, 2005).

World economic growth slowed noticeably in 2005 from the strong expansion in 2004. The world economy was expected to continue to grow at this more moderate pace of about 3 percent during 2006 (WESP-2006). The rate of growth is, nonetheless, the same as the average of the past decade. The US economy remains the main engine of global economic growth, but the dynamic growth of China, India and a few other large developing economies is becoming increasing important. Economic growth slowed down in most of the developed economies during 2005, with no recovery expected in 2006. Growth will moderate further to 3.1 percent (WESP-06) in the United States of America, while lackluster performance will still prevail in Europe, with growth reaching a meager 2.1 percent (WESP-06) in 2006. The recovery in Japan is expected to continue, albeit at a very modest pace of around 2 percent (WESP-06).

China and India are by far the most dynamic economies; the rest of East and South Asia is expected to grow by more than 5 percent. Latin America is lagging somewhat behind, with growth of about 3.9 percent, but African economic growth is expected to remain solidly above 5 percent. Growing at 6.6 percent, the LDCs are faring even better, reaching the fastest average rate of growth they have had for decades. Even if these record levels are sustained, per capita growth is still not strong enough in many of these countries to make sufficient progress towards the Millennium Development Goal of halving extreme poverty by 2015.

1.1.1 Growth And Investment

South Asia sustained the impressive economic performance of the year's 2004 and 2005, registering high growth of 8.1% in 2005 (Figure 1.1). This is above Asia's regional average growth in GDP of 7.6%, and it significantly outpaced the world economy. The brisk growth of output translated into a 6.5% increase in per capita income in South Asia. Economic growth accelerated in India and Pakistan, to 8.4% and 8.6% respectively. Afghanistan and Sri Lanka also surpassed the rates of growth achieved in FY2004.

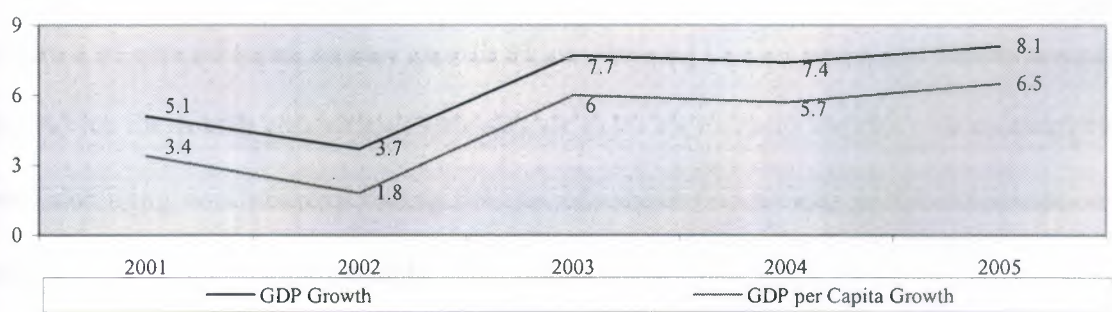


Fig 1.1: - GDP and GDP per capita Growth in South Asia (%).
Source: SAER, Prepared by ADB, 2006. (www.adb.org).

Conversely, the pace of growth slowed in Bangladesh, Bhutan, and Nepal, while the economy of Maldives actually contracted by 5.2% in 2005 due to the combined effects of the damage from the tsunami and rising oil prices.

Table 1.1: - Consumption and Investment in South Asia.

			2001	2002	2003	2004	2005
Growth (%)	*Consumption*		4.5	1.9	6.1	7.0	6.5
	Investment		-0.9	13.6	14.2	10.6	15.1
Share in GDP (%)	*Consumption*		78.1	76.5	75.3	74.0	73.0
		Private Consumption	67.0	65.7	64.9	63.5	62.8
		Public Consumption	11.1	10.9	10.4	10.5	10.2
Investment			22.3	24.1	25.7	28.1	29.1
	Private Investment		15.9	18.2	19.3	21.0	21.7
	Public Investment		6.4	6.0	6.4	7.1	7.4
Net Exports			-1.5	-1.4	-1.6	-2.2	-2.8

Sources: *South Asian Economic Report, Prepared by ADB, October 2006. (www.adb.org).*

The services sector remained the main driver of growth in South Asia, expanding at 9.4% in 2005. The industry sector also contributed significantly with 8.9% growth, while the agriculture sector grew by only 4.0%. Due to its consistently high growth rates, the services sector's share in total output has been steadily increasing over the past few years (ADB, 2006).

In terms of expenditures, annual growth of investment (15.1%) surpassed that of consumption (6.5%) for the fourth consecutive year (Table 1.1). As a result, the share of consumption has been declining continuously during this period—both private and public consumptions have contributed to this declining trend.

In 2005 the investment rate in South Asia increased to 29.1%. Private investment in South Asia amounted to 22% of GDP, while public investment stood at 7% of GDP. The growth in investment has primarily been driven by private investment and its share in the total has increased from 71.3% in 2001 to 74.6% in 2005. The positive private sector sentiments in South Asia are also evident from the strong performance of the equity markets in the region. Foreign direct investment (FDI) also continued its rapid expansion in 2005. While FDI in South Asia is still a fraction of that in East and Southeast Asia, it amounted to $10.2 billion, up by 43.3% from the previous year. Both the increasing share of private investment in the total and acceleration in FDI underlie South Asia's observed transformation.

The relatively slow growth in consumption expenditures has resulted in improving saving rates. The saving rate reached 27.0% of GDP in 2005, sustaining the upward trend of the past few years (Figure 1.2). The saving rate is gradually approaching that in the newly industrialized economies (32.2%) and ASEAN (29.8%). Compared to 2001, the saving rate in South Asia has increased by about 5 percentage points. Both public and private sectors have contributed to this positive trend.

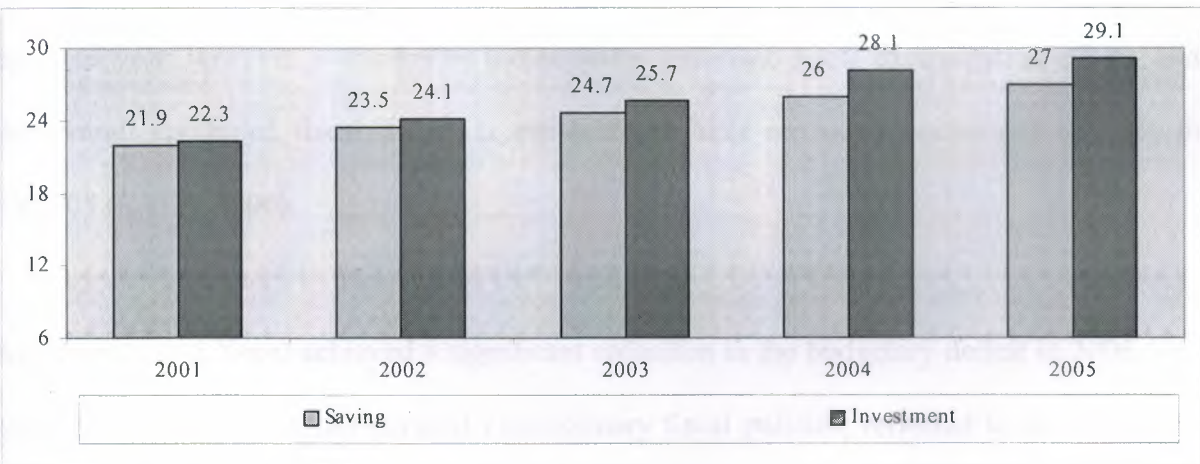


Fig 1.2: - Saving and Investment Rates in South Asia (%).
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

The public sector reduced the amount of dissaving from 5.6% to 2.4% of GDP during 2001–2005. Over the same period, private saving as a share of GDP increased from about 27.5% to 29.3% (ADB, 2006).

Following the significant reductions in the fiscal deficit during the previous 2 years (i.e. 2004 and 2005), the deficit as a percentage of GDP—at 6.7% in 2005— was marginally higher than in 2004 (Figure 1.3).

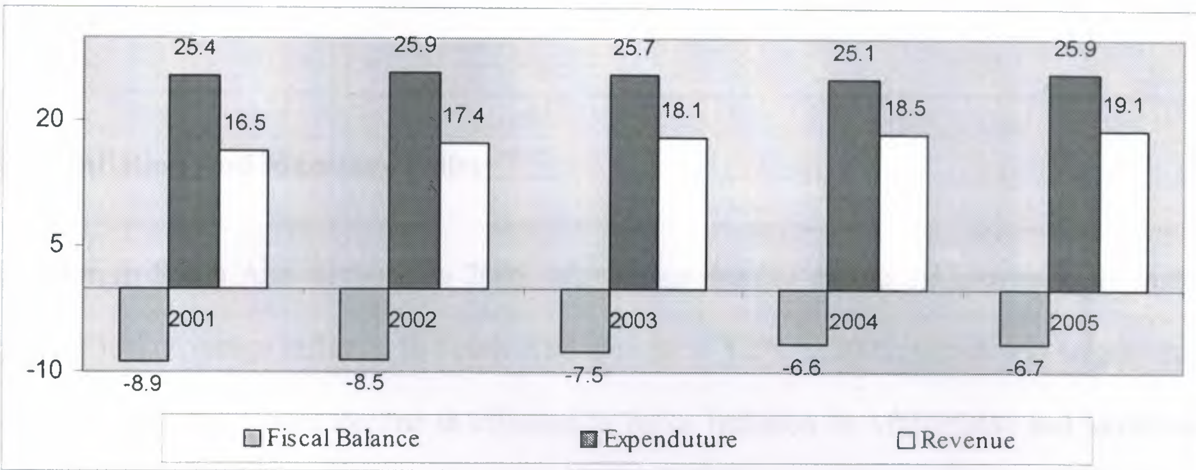


Fig 1.3: - Fiscal performance in South Asia (% of GDP).
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

In India, the federal fiscal deficit at 4.1% of GDP in FY2005 was slightly higher than in the previous year; however, a number of Indian states continued fiscal consolidation efforts, and the overall combined fiscal deficit is estimated to have remained unchanged at 7.5% in FY2005 (SAER, 2006).

Afghanistan and Nepal achieved a significant reduction in the budgetary deficit in 2005. The other South Asian countries pursued expansionary fiscal policies, reflected in an increase in their fiscal deficits. Pakistan, having successfully implemented a stabilization program from FY2001 to FY2004, adopted an expansionary fiscal policy to accelerate growth and increase spending on infrastructure and pro-poor sectors. Its fiscal deficit increased to 3.3% of GDP in FY2005. Bangladesh also followed an expansionary policy, and its fiscal deficit was marginally higher at 3.4% of GDP. In Bhutan, the fiscal deficit increased to 10.7% of GDP in FY2005 because of large one-off capital expenditures. Sri Lanka also had a large and rising fiscal deficit (9.0% of GDP, including 1.4% due to tsunami-related expenditures) in 2005. In Maldives, the combined effects of the tsunami-related expenditures, government salary increases, and subsidies resulted in a sharply higher fiscal deficit (12.2% of GDP) in 2005 (ADB, 2006).

1.1.2 Inflation And Monetary Policy

Inflation in South Asia declined in 2005, after rising sharply during the previous two years (Figure 1.4). Average inflation in South Asia slowed to 5.2% in 2005, which was largely due to a two-percentage point decline in inflation in India. Inflation in Afghanistan and Maldives also slowed while the other countries posted higher inflation rates. Pakistan's and Sri Lanka's price levels increased most significantly, at 9.3% and 10.6% respectively. Overall, South Asia had a higher rate of inflation than did East Asia or Asia as a whole. Inflation in the region can

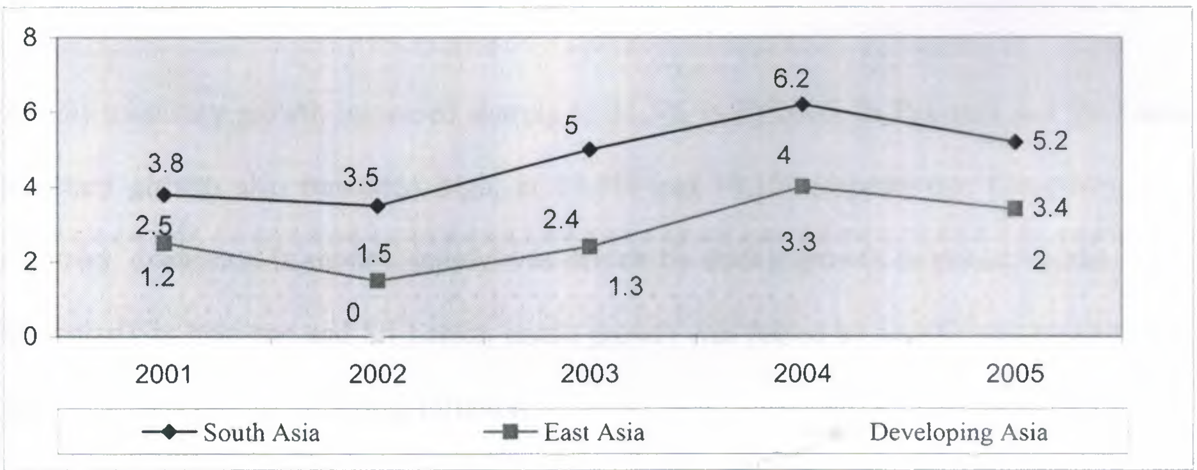


Fig 1.4: - Inflation in Developing Asia (%).
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

be attributed to two factors in recent years: high world oil prices and the rapid rate of economic expansion driven by strong domestic demand.

Most South Asian countries followed accommodative monetary policies, with money supply expanding rapidly in 2005 following the significant slowdown during the previous year (Figure 1.5). This may have occurred, as monetary authorities perceived that inflationary pressures had abated, creating an environment favorable for monetary expansion geared toward economic growth.

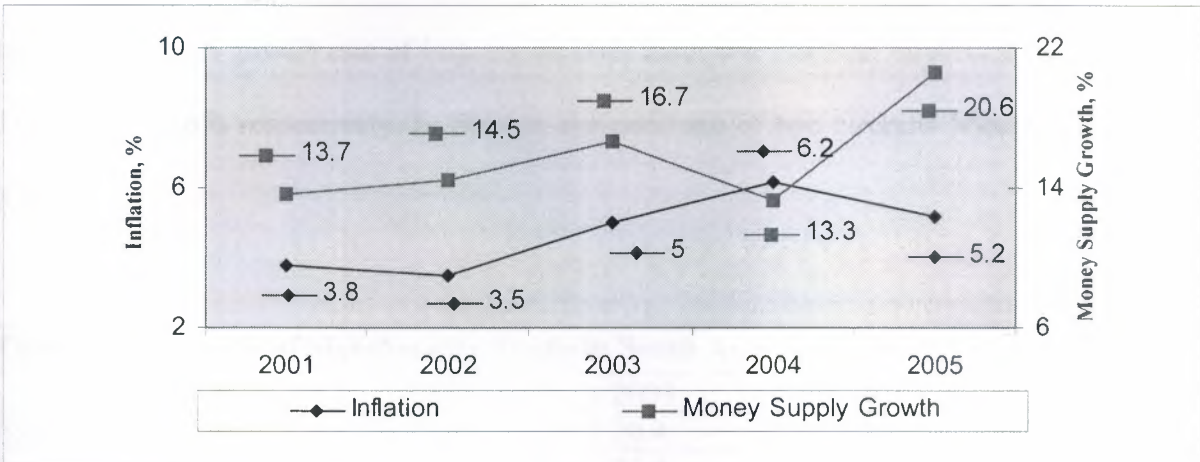


Fig 1.5: - Inflation and Money Supply Growth (%).
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

In India monetary growth increased sharply to 21.3% in FY2005. In Pakistan and Sri Lanka, monetary growth also remained high, at 19.3% and 19.1% respectively. Generally in all countries, expansion in money supply was driven by strong growth in private sector credit. Particularly in Pakistan and Sri Lanka, credit growth was fueled by negative or very low real interest rates resulting from high inflation.

In response to rising inflation, Pakistan and Sri Lanka raised the policy rates in FY2005. However, this seemed to have had little impact on the growth of monetary aggregates, which remained high.

1.1.3 External Sector

Strong export growth of 24.3% was recorded in 2005 (Table 1.2). Export growth was particularly strong in India at 27.5%, followed by Bhutan (18.0%) and Pakistan (16.8%). Imports also continued to grow rapidly. After posting exceptionally high growth of 40.4% in 2004, imports increased by another 30.3% in 2005. The rising price of oil was an important factor in the high growth rate of imports. In both India and Pakistan imports grew rapidly, at 31.6% and 39.6% respectively. In Bhutan, the purchase of two aircrafts boosted imports by 67.6%.

Table 1.2: - Growth of Merchandise Trade in South Asia (%).

	2001	2002	2003	2004	2005
Exports	0.1	12.9	20.4	21.4	24.3
Imports	-1.7	7.9	21.4	40.4	30.3

Source: *South Asian Economic Report, Prepared by ADB, October 2006. (www.adb.org).*

With imports growing faster than exports, trade deficits are common to all countries within the region. As a whole, South Asia maintains an overall trade deficit against the rest of the world. While total exports to countries outside the region increased by over $26 billion during the year, imports from these countries increased by almost double this amount, resulting in an overall trade deficit in excess of $63 billion in 2005 (Fig-1.6). Sharp increase in the price of oil and strong domestic demand contributed to the increasing deficit. Trade in services continues to gain significance in South Asia.

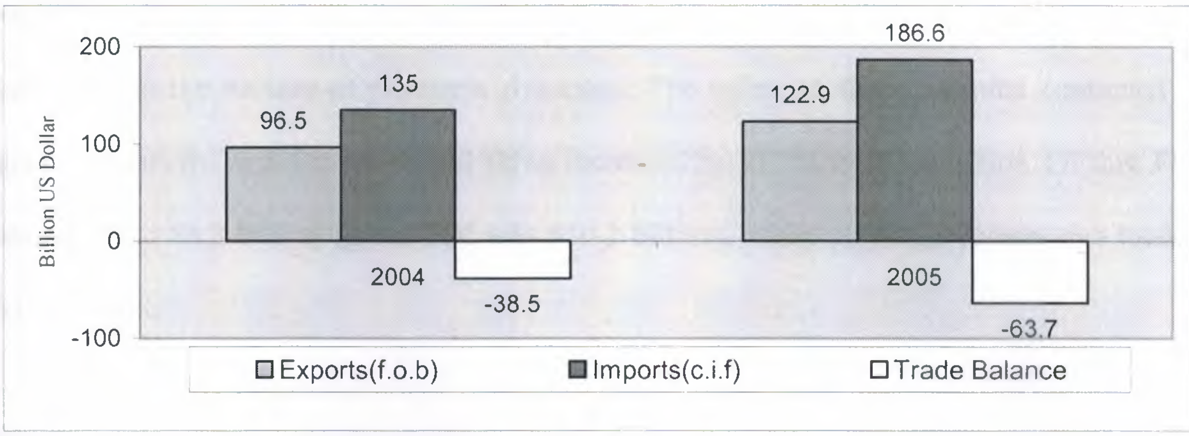


Fig 1.6: - Trade Balance of South Asia ($ billion).
Source: *IMF Direction of Trade Statistics (DOTS), May 2006. (www.adb.org).*

Three of the eight countries in South Asia are net exporters of services. India's services receipts, relative to GDP, increased by 1 percentage point to 7.6% in FY2005 due to the rapid growth in export of information technology (IT) and IT-enabled services and earnings for business process outsourcing. Maldives' export of services, primarily tourism related, declined significantly, to 41.4% of GDP in 2005. Sri Lanka's services exports also declined, to 6.5% of total output, in the wake of the tsunami (Table 1.3).

Table 1.3: - Services Receipts (% of GDP)

	2001	2002	2003	2004	2005
South Asia	3.4	3.9	4.3	6.0	6.7
Net Service Exporting Countries					
India	3.4	4.1	4.5	6.6	7.6
Maldives	56.6	56.6	62.4	65.3	41.4
Sri Lanka	8.6	7.7	7.7	7.6	6.5

Source: *South Asian Economic Report, Prepared by ADB, October 2006. (www.adb.org).*

The services account surpluses offset part of the merchandise trade deficits in the current accounts of these net service-exporting countries. Another mitigating factor was the further increase in workers' remittances, which climbed by almost $5 billion to over $35 billion. Nevertheless, the average current account deficit in South Asia increased from 0.5% of GDP in 2004 to 1.4% in 2005 (Table 1.4). Rising capital flows into South Asia are becoming more important in the balance-of-payments dynamics. The influx of foreign capital continued to gain momentum. In 2005, net capital flows increased by 52.7% to $21.4 billion. Of this, FDI amounted to $8.2 billion (gross FDI was $10.2 billion), while portfolio investments totaled $13.1 billion.

Table 1.4: - Balance of Payments

	2001	2002	2003	2004	2005
Current Account Balance (% of GDP)	0.3	1.2	2.3	-0.5	-1.4
Trade Balance (% of GDP)	-2.8	-2.3	-2.5	-5.0	-6.4
Workers' Remittances ($ billion)	20.0	23.0	31.6	30.4	35.1
Net Capital Inflows ($ billion)	7.5	4.8	14.8	14.0	21.4

Source: *South Asian Economic Report, Prepared by ADB, October 2006. (www.adb.org).*

The rising inflows of FDI and portfolio investments contributed to the capital account surpluses, which have more than financed the current account deficits and thus contributed to the increasing foreign exchange reserves. Gross international reserves grew by $10.0 billion, representing a 6.4% increase from the previous year (Table 1.5).

Table 1.5: - Gross International Reserves.

	2001	2002	2003	2004	2005
South Asia ($ billion)	59.8	85.2	129.0	159.0	169.1
Growth (%)	26.6	42.4	51.4	23.3	6.4

Source: *South Asian Economic Report, Prepared by ADB, October 2006. (www.adb.org).*

The level of international reserves in South Asia climbed to $169.1 billion at end-2005. Currencies in South Asia have generally been stable against the US dollar. The exception is the Bangladeshi taka, the value of which has continued to decline (IMF, IFS 2006). The Indian rupee has been the strongest currency in the region since 2005, but two episodes of sharp depreciation have caused its value to slip back to its January 2004 level. The Bhutanese ngultrum and the Nepalese rupee also remained strong, as Bhutan continued to maintain a parity peg of the ngultrum with the Indian rupee, while the nominal value of the Nepalese rupee is also closely anchored to the Indian currency. The Maldivian rufiyaa has maintained its fixed value against the US dollar since July 2001. Pakistan and Sri Lanka have allowed a relatively small nominal depreciation against the US dollar as high inflation in these countries caused real currency appreciation.

1.2 Poverty In South Asia

Every morning newspapers could report, "More than 20,000 people had been died yesterday because of extreme poverty". The stories explore the hidden scenario that up to 3,000 children who are below five died because of bitten by mosquito that is malaria, 5,000 mothers and fathers dead of tuberculosis (TB), 7,500 young adult dead of AIDs and thousands more dead of diarrhea, respiratory infection and other killer diseases that prey on bodies weakened by chronic hunger. The poor die in hospital wards that lack drugs, in villages that lack anti-malarial bed nets, in houses that lack safe drinking water. They die namelessly without public comments. Sadly, such stories have rarely written.

All told, the extreme poor (at around 1 billion) and the poor (another 1.5 billion) make up around 40 percent of humanity (Sachs, 2005). Majority of the impoverish people are--suffering to survive but unaware of the daily struggles and vast numbers who lose that struggle – living in Sub-Sahara Africa (SSA) region. Poverty in South Asia (SA) is also remarkable after SSA region such that this region still accounts for about 40 percent of the total poor (Table 1.2.1), although the share of SA in the world's total poor decline by roughly

10 percentage points between 1990 and 2000. Using the headcount ratio, about one third of the population in SA was under the poverty line in 2000 (Thapa, 2004). The poverty reduction in SA will be crucial in the achievement of the MDG of halving poverty by the year 2015.

Table 1.2.1: - Regional Comparison of Income Poverty in Developing Countries.

	People living on less than US $ 1 a day (million)		*Share of population living on less than US $ 1 a day (percent)*	
Region	***1990***	***2000***	***1990***	***2000***
East Asia and Pacific	470	261	29.4	14.5
South Asia	466	432	41.5	31.9
Europe and Central Asia	6	20	1.4	4.2
Latin America and Caribbean	48	56	11.0	10.8
Middle East and North Africa	5	8	2.1	2.8
Sub-Saharan Africa	241	323	47.4	49.0
Total	1237	1100	28.3	24.5

Source: *World Bank 2004 (World Economic Prospects 2004).*

The sheer size of the population in the South Asian Region, along with its growth acts as major breaks on poverty reduction in the area, where the income generating opportunities and equity promoting measures have lagged far behind the essential requirements of population. The seven countries (excluding Afghanistan) put together had a combined population on roughly 1.44 billion in 2005 that is one-fifth of the world population. Of course, India alone accounts for a little over a billion people in South Asia. On average in all countries, population in 2000-2005 was little higher compared to 1990-2000 because the annual population growth rates during the decades of 1990-2000 were lower than the one from the preceding decade.

Poverty is basically a rural problem in South Asia. In all countries of this sub-region, poverty disproportionately concentrated in the rural area (Table 1.2.2). The headcount ratio is also higher for rural areas. Rural poverty trends vary considerably by country. For example in Bangladesh (Sachs, 2005), 76 percent of the population lives in rural areas and in India the amount is 72 percent.

In several South Asian countries, the gap between rural and urban poverty is widening over time (Table 1.2.3). These countries include Bangladesh, India and Pakistan.

In 1990, just over 40 percent people in SA are living on less than one dollar a day. This decrease to about 30 percent by the 2000 and if poverty level keep declining at the current rate, part of the first Millennium Development Goal (MDG)—to halve extreme poverty by 2015—is likely to be met and possibly even surpassed (developmentgoal.org).

Table 1.2.2: - Distribution of poor in rural and Urban household in South Asia.

Country/Year	*Distribution of poor*	
	Rural	Urban
India, 1994	86.2	13.8
Pakistan, 1990/91	75.0	25.0
Bangladesh, 1995/96	57.8	42.2
Nepal, 1995/96	94.0	6.0

Source: *Ahuja et al 1997.*

Table 1.2.3: - Incidence of rural and urban poverty in South Asia

Country/Year	*Poverty Headcount Index*		
	Rural	Urban	Rural-Urban Ratio
Bangladesh, 1983—84	53.8	40.9	1.32
Bangladesh, 1991-92	52.9	33.6	1.57
Bangladesh, 1991-92	46.0	23.3	1.97
Bangladesh, 1995-96	39.8	14.3	2.78
India, 1992	43.5	33.7	1.29
India, 1994	36.7	30.5	1.20
India, 1957-58	55.2	47.8	1.15
India, 1977-78	50.6	40.5	1.25
India, 1987-88	38.9	35.6	1.09
India, 1990-91	36.4	32.8	1.11
India, 1994-95	34.2	28.4	1.20
India, 1995-96	35.4	27.3	1.30
India, 1997	34.2	27.9	1.23
Nepal, 1995-96	44.0	23.0	1.91
Pakistan, 1990-91	36.9	28.0	1.32
Pakistan, 1984-85	49.3	38.2	1.29
Pakistan, 1990-91	36.9	28.0	1.32
Sri Lanka, 1985-86	45.5	26.8	1.70
Sri Lanka, 1990-91	38.1	28.4	1.34
Sri Lanka, 1985-86	31.7	16.4	1.93
Sri Lanka, 1990-91	24.4	18.3	1.33

Source: *IFAD 2001 [Original Sources: (a) World Bank 2000, (b) Lipton Eastwood 1999 (c) de Haan and Lipton 1999 (d) Jha 1999]*

By 1999-2000, India was over the halfway mark in terms of reducing by half the number of people living below poverty line by 2015. However, Bangladesh and Pakistan, the other most populated countries in the region, are on track in terms of achieving this goal. But other individual countries, in this bulk region, will be left with the reality of high levels of stark poverty within their borders.

Basic health is improving in the region, but may be not quick enough to meet the fourth MDG — to reduce by two-thirds, between 1990 and 2015— the under five-mortality rate. In 1990, there were about 130 deaths per 1000 children decline to about 100. If the region were on track, this number should have been under 90. India, Pakistan and Bangladesh are all off track in terms of achieving this goal. The only South Asian country that has made significant progress in this area is Nepal. Sri Lanka's under five mortality rate was already low in 1990 at 23, in comparison to other South Asian countries.

An unacceptably high number of women died for every 100,000 live births in South Asia in 2000, a very high maternal mortality ratio (MMR) that was surpassed only by Sub Saharan Africa (developmentgoals.org). In 1991, India's MMR was 437, compared to Pakistan's 200 and Bangladesh's 480 in 1990. In 1995, Bhutan's MMR was 500 and the Maldives' was 390. Nepal's MMR was 540 between 1985 and 2001. Sri Lanka's ratio was the lowest in the region in 1995, at 60. Since the starting numbers are so large, especially for the highly populated India and Bangladesh, it will take a lot of work for the region to achieve the fifth MDG of reducing the maternal mortality ratio by three quarters by the year 2015.

Primary education completion rates are improving in the region, but not nearly fast enough to meet the goal of ensuring that all children will be able to complete primary schooling by 2015 (MDG 2). In 1990, the primary completion rate for South Asia was 69 percent and in 2000 it had only climbed to about 74 percent. For the region to be on track to reaching the goal of 100 percent by 2015, over 80 percent of children should have completed primary school by 2000. Better progress has been made in terms of achieving the goal of a one-to-one ratio of girls to boys in primary and secondary education by the year 2015, but the region is still significantly off track. In 1990, the ratio of girls to boys was .65 and in 1999, the ratio should have been up to .87. Instead, it was under .80 (developmentgoals.org).

As mentioned earlier, because of its sheer size, the progress in India towards meeting the MDGs will significantly affect the entire South Asian region's standing in terms of the goals. The continuing structural change in India's industrial, trade and financial sectors, among others, have contributed meaningfully to higher productivity of the economy. This reinforces the probability of the country registering sustained high levels of economic growth. Indeed, there is potential for GDP growth of the order of 8 to 9 percent per year. However, in order to attain and sustain such high levels of growth, it is necessary to move swiftly to complete many of the reforms that are now underway. If India does grow consistently at around 8-9 percent per year, this is likely to push up its domestic savings in the next few years. Besides, stronger growth should attract more foreign savings, especially foreign direct investment, and thus raise the overall investment rate.

The other relevant demographic variables, such as crude birth-rate, crude death rate, total fertility rate (and preventive measures to control population i.e. contraceptive use, etc) show shifts in a positive direction. Since the crude death rate is declining faster than the crude birth rate, the overall growth of population continues to negate at least a part of the development gains when viewed in per capita terms, and hence the less-than expected decline in the incidence of poverty in the region.

The changing population structure, however, offers some potential opportunities for poverty reduction which most of the South Asian countries have not been able to harness, except perhaps India, to a certain extent. The 'dividends' of demographic transition, that is, when large population groups are comprised of young adults who could engage in productive activities, could potentially be seen as an advantage throughout the region. Roughly 62 percent of the South Asian population is in what is called the economically active age group between the ages of 15 to 64. Consequently, dependency rates of children are low, and so is the proportion of dependents. The real challenge in South Asia is to create large-scale employment opportunities outside of the government/public sector.

1.2.1 Population Below Poverty Line

Poverty is widespread in the region. While in Bangladesh half the population was below poverty line during the year 2000, in the rest of the countries (except Maldives) the proportion of population below poverty line ranged between 26 percent (India) to 38 percent (Nepal). However, the positive feature of the above-indicated poverty situation is that in the countries of the region, there has been a visible decline in the extent of the population living below poverty line since 1990. The only exception is Pakistan where the extent of total as well as rural and urban population below poverty line has increased since 1990.

With respect to Millennium Development Goal 1, to halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day, Bangladesh, India, Pakistan and Sri Lanka were at different places between 1990 and 2001. Out of these four countries, Bangladesh had the highest proportion of people living under these conditions—36 percent, compared to 6.6 percent in Sri Lanka. In India, the situation was similar to the one in Bangladesh, as 34.7 percent of its population lived on less than $1 per day, while in Pakistan 13.4 percent of the people faced this difficulty (Human Development Report, 2003).

While measuring the proportion of population living below $1 a day can be useful in the sense that it is a standard measurement, the proportion of people living below poverty line should also be measured and studied, as in many cases, it differs substantially from the proportion of people living on less than $1 a day. In 1990, 37.5 percent of Indians were estimated to be living below poverty line. In the same year, 59 percent of Bangladeshis and 42 percent of Nepalese were reported to be living below poverty line. In Pakistan, between 1994 and 2000, an estimated 33 percent of people were below poverty line. Perhaps the most striking example of the contrast of poverty line data versus below $1 a day data is that of Sri Lanka. As is mentioned above, only 6.6 percent of Sri Lankans were reportedly living on less than $1 a day in 1990, while it is estimated that between 1995 and 2001, 25 percent of that population was living below poverty line (World Bank Group, 2003).

Of the four above-mentioned countries, the proportion of undernourished people was highest in India in 1990 at 62 percent (World Bank, 2004) and lowest in Pakistan at 25 percent (HDR, 2003). During the same time in Sri Lanka, 29 percent of its population was undernourished. This proportion remained unchanged at 35 percent in Bangladesh between 1998 and 2000, and decreased by only one percentage point in India, to 24 percent. Between 1990 and 2001, the share of the poorest 20 percent of the population of national income or consumption was very close in all four countries, ranging from a low of 8 percent in Sri Lanka to a high of 9 percent in Bangladesh. In examining the weight and meaning of different indicators it is it again interesting to note the case of Sri Lanka. Even though only 6.6 percent of Sri Lankans were living on less than $1 a day between 1990 and 2001, as opposed to a whopping 36 percent of Bangladeshis living in the same predicament, the share of the poorest 20 percent in national income or consumption during the same years differed by only one percentage point (8 percent in Sri Lanka vs. 9 percent in Bangladesh). Also, the proportion of undernourished Sri Lankans, as opposed to Bangladeshis in 1998-2000 was not as different as one may expect, given the much smaller share of people living on less than $1 a day in Sri Lanka, revealing the important roles of a number of different indicators, such as poverty line data. It is clear from a number of indicators mentioned above that Bangladesh needs a great deal of attention focused on MDG 1 in terms of eradicating hunger, as it has not progressed in this area.

Yet another significant dimension of the poverty situation in the region relates to income distribution. In the bulk of the cases covering rural and urban areas separately, as well as combined in 1990 and 2000, the income share of the bottom groups ranged between 6 and 8 percent. In India the range was slightly higher. On the other hand, the income share of the top 20 percent ranged between 42 to 62 percent. India differed again in terms of range, in that it was somewhat lower there. This partly corroborates the fact that increased inequalities accompany economic development in the region, and that development gains fail to percolate to the bottom. Different South Asian countries are endowed with rich and diverse (above ground and under ground, and in sea) natural resources. However, these resources are either over-extracted or remain underutilized. Both ways, the situation leads to persistence of poverty and inequality.

In terms of economic growth, pockets of medium to high growth exist in India, and medium to low growth in the rest of South Asia. In India, for instance, the high growth regions are in the western states of Gujarat and Maharashtra, and the southern states of Tamil Nadu and Karnataka.

Despite a gradual decline in its relative contribution to GNP from 1980 to 2000, agriculture accounts for a substantial proportion of GNP in different countries (except in Maldives). In most of the countries, agriculture's share was over 50 percent of GNP during 1980s and about a quarter of GNP between 1990 and 2000. This suggests that despite the above shifts in sectoral contributions to GNP, agriculture serves as a major contributor to GNP, as well as a source of employment and sustenance to the bulk of the countries' population. Broad-based agricultural growth in the region has helped reduce poverty. During the 1990s, agricultural performance in most of the countries is reflected by an increase in wheat and rice output, percentage of area irrigated, use of chemical fertilizers, and even an increase in net and gross sown areas in many countries. The annual compound growth rate of agricultural production in the South Asian countries was 3.7 percent in the 1990s as against 3.2 percent in the 1980s. Besides high yielding varieties of wheat and rice, higher agricultural growth is attributed to diversification in favor of high value commodities, especially fruits and vegetables. In part, this is due to government policies and the fact that South Asia is diverse in climate, soils and other agro-ecological features. Among the South Asian countries, Bangladesh, Bhutan and Nepal show less diversity as compared to the rest of the countries in the region.

Bangladesh has specialized in rice and has more than three-fourths of the area under rice cultivation, but the remaining one-fourth is highly diversified. Bhutan and Nepal, on the other hand, are aiming at higher degree of self-sufficiency in basic food grains and are hence concentrating more towards cereals, particularly rice, wheat and maize (Joshi et. al. 2004).

The natural setting and resource base of the South Asian countries have quite varied potential for development and poverty reduction if properly harnessed. Because of rather extractive modes of management, inappropriate technologies and incentive systems, fuller gains of rich natural resources are not realized. On the contrary, over extraction of natural resources, including deforestation and degradation of farmland has contributed towards increased poverty in many areas. More importantly, different natural hazards such as floods, droughts, and earthquakes bring major setbacks to activities contributing to poverty reduction.

1.2.2 Resource Allocation To Social Sector

An important indicator of a state's ability and priority for reducing poverty is the level of investment in education, health and related activities. If Bhutan and Maldives are excluded, the ratio of public expenditure on education was less than four percent in any of the countries during 2002. The corresponding allocation to the health sector was much lower; it was less than two percent in most cases. In 2000, India, Pakistan and Nepal each spent less than one percent of their GDPs on health. Sri Lanka, which is poorer than India, spent 1.8 of its GDP on health.

The difference in education and health-sector spending is partly explained by: higher visibility, easy feasibility, increased public demand, lower initial and operational cost and higher employment generating potential of lower level school facilities, etc. associated with the education sector, relative to health-sector projects.

India has one of the highest proportions of private expenditure on health care anywhere in the world. Primary health care is in principle 'free,' yet households incur substantial out of pocket expenses on medical care. The poor spend a very high proportion of their household income on treatment of illness compared to the rich. For the poor, an episode of illness can mean a plunge into poverty. This is also true for those above the poverty line. Health insurance and risk pooling mechanisms are conspicuous by their absence. To pay for medical care, people often borrow at high interest rates and/or sell productive assets. This pushes them deeper into poverty from which recovery is often very difficult.

1.2.3 Health-Indicators

The infant mortality, child mortality and maternal mortality rates are very high in the South Asian countries. Except in Sri Lanka and Maldives, in 1980 the infant mortality rate (number of deaths under one year of age per 1,000 live births) ranged between 101 and 124 in South Asia. Bangladesh, India, Pakistan and Sri Lanka have all made progress in terms of reducing child mortality (MDG 3, Goal 4). In 1990 and in 2000, two measurement years for the infant mortality rate (IMR) and the under-five mortality rate (per 1,000 live births), Sri Lanka had the lowest IMR of 18.5 and 15 and an under-five mortality rate of 23 and 17.9, respectively. The situation in Bangladesh, India and Pakistan has not been as rosy. In Bangladesh, the IMR did drop by almost a third —from 94 to 66 between 1990 and 2001 and the under-five mortality rate decreased slightly from 108 to 94. India and Pakistan also saw a reduction in IMR, as it dropped from 80 to 66 in India and from 96 to 84 in Pakistan between 1990 and 2001, respectively. Under-five mortality also decreased in India from 123 to 93 and from 128 to 109 in Pakistan between the same years.

Similarly, maternal mortality rate (number of maternal deaths in the age group of 15 to 49 per 100,000 live births) on average ranged between 350 and 540 in countries of the region (except Sri Lanka) between 1985 and 2001. The other health indicator with long-term consequences is the high extent of under nourished children (below 5 years of age) in most of the countries. The life expectancy, though low, improved slightly for both males and females in all the countries in the year 2000, compared to 1980. An equally serious phenomenon is the high incidence of diseases like tuberculosis (21 to 211 cases per 10,000 people) in the South Asian countries in the year 2001. The corresponding incidence of respiratory diseases ranges from around 2,500 to 16,400 per 100,000 people. The high incidence of major curable diseases (such as tuberculosis, malaria, respiratory diseases) coupled with the high proportion of undernourished young children (below 5 years of age), are major indicators of deprivation in the countries of the region. To this one can add the low nutrition of women and their required protection/preventive measures against vulnerability to chronic diseases such as anemia, or their ability to bear and nurse children. Women's exposure to risks during pregnancy and childbirth is very high, especially in poor communities and remote areas. In several cases there are no data on relevant indicators, while in others (except Sri Lanka) only half or fewer women have access to protective and preventive facilities. Furthermore, facilities and support systems to address health problems in general are quite low on the health infrastructure front. Given the weight India carries in the world population and the very large share India has in the global burden of disease, any stride forward it makes in the field of health will also take the whole world a lot closer towards the attainment of the MDGs.

1.2.4 Education

Besides poor health and mortality risk, the other factors exposing the poor to persistent poverty are their limited capacities, and absence of solid foundations for, enhanced earning. The latter are reflected through the educational status and ability to acquire education and other skills. Despite improvements in adult literacy rates between 1980 and 2000, 40 to 73 percent of the adult population is still illiterate in the South Asian region, except in Sri Lanka and the Maldives. Similarly, the net enrolment ratio for relevant age groups, despite improvement during the two decades, is quite low. This is particularly so for secondary level age groups, where 34 to 54 percent of the children do not go to school.

In terms of achieving universal primary education (MDG 1, Goal 2), in 2000-01 Sri Lanka lead India, Bangladesh and Pakistan with a net of 97 percent of its children enrolled in primary school. India had the lowest net enrolment, at a strikingly low 52.5 percent; Pakistan had 72 percent enrolment and Bangladesh had 75 percent enrolment. Given the high enrolment rates, it is not surprising that Sri Lanka boasted an impressive youth literacy rate (age 15-24) of 95.1 percent in 1990 and 96.9 percent in 2001. What is surprising is that although 75 percent of Bangladeshi children were reportedly enrolled in primary school in 2000-01, the youth literacy rate there for that time was only 49 percent (up from 42 percent in 1990), indicating that there is a high dropout rate in Bangladesh. India's youth literacy rate increased from 64.3 percent in 1990 to 73.3 percent in 2001, while Pakistan's youth literacy rate went from 47.4 percent to 57.8 percent during the same time period.

The problem of children enrolling but then dropping out of school is significant, as dropout rates are as high as 33 to 40 percent in Bangladesh and India. But in all the countries in the region, the situation was better in 2000, compared to 1980. Lack of resources and engaging children for work are important reasons for this phenomenon. Natural disasters such as draught, flood etc. play a periodic role in this phenomenon as well.

1.3 Poverty In Bangladesh

There is considerable disagreement about the extent of income poverty in Bangladesh for the earlier period between 1960s and 1980s. As **Table 1.3.1** shows the estimated level of rural poverty of the country after its independence varied from 55.7 percent to as high as 82.9 percent, the latter being the official figure. According to one estimate, the period between 1963-64 and 1976-77 saw a major surge in poverty. During this period the number of hard core poor increased from a negligible figure to 45 million or 60 percent of the rural population. The hard-core poor made up over 40 percent of the urban population in the middle of 1970s, although they were rarely found in early 1960s (Islam 2004).

Table 1.3.1: - Rural Poverty Measures in Bangladesh: Head-Count Ratios in Various Studies (%).

Year	Ahmad & Hossain (1984)	Islam & khan (1986)	Muqtada (1986)	Rahman & Haque (1988)	Hossain (1989)	Hossain & Sen (1992)	Revallion & Sen (1996)	Official Estimates by BBS	Wodon (1996)
1973/74	55.7	47.7	55.9	65.3	77.3	71.3	-	82.9	-
1976/77	61.1	62.3	68.2	-	-	-	-	-	-
1977/78	67.9	-	-	-	-	-	-	-	-
1978/79	-	-	-	-	-	-	-	-	-
1981/82	-	-	-	79.1	77.8	65.3	-	59.0	-
1983/84	-	-	-	49.8	52.1	50.0	53.8	63.0	60.4
1985/86	-	-	-	47.1	49.9	41.3	45.9	51.0	48.7
1988/89	-	-	-	-	-	43.8	49.7	48.0	60.2
1991/92	-	-	-	-	-	-	52.9	50.0	63.0

Sources: *Sen and Rahman 1999: Appendix 2 (Primary Source) and Bangladesh e-Journal of sociology. Vol-1, No-2, July-2004.*

In 1980s there was greater consensus among various studies. **Table 1.3.2 shows** that there has been a slow reduction in income poverty, which could be as high as 83 percent, but most probably 74 percent (Sen, 2003) in 1973-74. The rural poverty, according to Sen (2003), appears to have declined more rapidly during 1970s and early 1980s when it went down to about 54 percent. There was a slight decrease of rural poverty during the second half of 1980s. But it went up to about 53 percent in 1991-92 – to the level of the first half of earlier decade. But BBS charts a steady decline of rural poverty from 61.2 percent in 1991-92 to 53 percent in 2000. The urban poverty fell from 44.9 percent to 29.4 percent in 1995-96 and then registered a slight increase to 36.6 percent at the dawn of a new millennium. The hard-core or extreme poverty showed a similarly slow decrease – it went down by only 3.4 percent over a decade from 1985-86.In 2000 it stood at 25 percent of the population (BBS, 2002).

Table 1.3.2: - Poverty Trends in Bangladesh: 1983-2000.

Year	National	Rural	Urban
1983-84	52.3	53.8	40.9
1988-89	47.8	49.7	35.9
1991-92	49.7	52.9	33.6
1995-96	53.1	56.7	35.0
2000	49.8	53.1	36.6

Source: *Sen 2003 & BBS 2000.*

The **Table1.3. 3** shows decline in rural poverty in terms of poverty gap and squared gap. Over the 1990s the poverty gap in the countryside declined by 2.8 percent, which was higher than urban areas. In the similar way the squared poverty gap also declined over the same period by 3.8 percent (GOB, 2002).

Table 1.3.3: - Rural Poverty Trends in Bangladesh: 1983-2000.

Year	All Poor	Poverty gap	Squared poverty gap
1983-84	53.8	15	5.9
1988-89	49.7	13.1	4.8
1991-92	52.9	14.6	5.6
1995-96	56.7	15.5	5.7
2000	53.1	13.8	4.8

Source: *Sen 2003 & BBS 2002.*

The APT (Analysis of Poverty Trends) survey as shown in **Table 1.3.4** found that 57.5 percent of rural population in 1987 was poor and the figure fell to 51.7 percent in 1994.

Table 1.3.4: - Rural Poverty Trends 1987-94: BIDS 62 Village Survey.

Indicator	1987	1989-90	1994
All Poor	57.5	59.3	51.7
Extreme Poor	25.8	30.7	22.5
Poverty Gap Ratio (%)	21.7	24.8	19.2
Distributionally Sensitive (FGT) Index	10.9	13.5	9.6

Source: *Sen 2003.*

The **Table 1.3.5** highlights the sharp decline in stunting and low weight among rural children in Bangladesh. This decline has been particularly sharp from early 1990s.

Table 1.3.5: - Trends in Nutritional Status of Rural Children 6-59 Months 1990-96.

Indicator	Aug 90-Jul 91	Aug 91-Jul 92	Aug 92-Jul 93	Aug 93-Jul 94	Aug 94-Jul 95	Aug 95-Jul 96
Stunting	69.8	70.3	67.9	63.9	63.6	62.3
Underweight	71	71.8	71.3	67.2	68.5	66.3

Source: *Rahman 2002*

The **Table1.3.6 and 1.3.7** shows the magnitude of poverty in terms of techniques of calculation deployed by the same agency-BBS. The differences are quite pronounced when different techniques like direct calorie intake (DCI) and cost of basic need (CBN) techniques. The BBS explains this anomaly by indicating better data quality for income sources in 2000 HIES.

Table 1.3.6: - Comparison Poverty Measurement [Upper (2122k.cal) Poverty Line].

	HIES 1995-96 (percent of population)		HIES 2000 (percent of population)	
	DCI Method	CBN Method	DCI Method	CBN Method
National	47.5	53.1	44.3	49.8
Rural	47.1	56.7	42.3	53.1
Urban	49.7	35.0	52.5	36.6

Source: *BBS 2002.*

ɔle 1.3.7: - Comparison Poverty Measurement [Lower (1805k.cal) Poverty Line].

	HIES 1995-96 (percent of population)		HIES 2000 (percent of population)	
	DCI Method	CBN Method	DCI Method	CBN Method
tional	25.1	34.4	20.0	33.7
ral	24.6	38.5	18.7	37.4
ɔan	27.3	13.7	25.0	19.1

ırce: *BBS 2002.*

;.1 Characteristics Of Poverty In Bangladesh

ɔm these studies several broad characteristics of poverty have been identified (Rahman, 02;BBS, 2001;BBS, 2002;Sen, 2003;Mujeri, 1997).

Whatever is the correct figure it is clear that poverty in Bangladesh has declined about one rcent per year (Rahman, 2002) or at best 1.8 percent (GOB, 2002) during the 1990s, which an extremely slow improvement. The decrease has been equally slow in the case of hard-ıre poverty.

[t also documents that extreme manifestations of poverty, such as, lack of minimum othing or basic shelter or starvation have declined.

There has been a faster reduction of poverty in urban areas.

There has been an increasing concentration of poverty among the female–headed ouseholds. The incidence of female-headed households may be as high as 15 percent with a eavy concentration of poverty among them (Mannan, 2000). HIES data, however, provides a ıore complex scenario. The female-headed households were subject to extreme poverty nuch more than the male-headed households. But there was little difference in terms of ıbsolute poverty among male and female-headed households. The absolute poverty was ;lightly higher among the male-headed households in rural areas while the opposite prevailed ın urban areas (BBS, 2002).

• There are significant regional variations of poverty. Rajshahi has the highest rate of poverty – 61 percent in contrast to Barisal, which has 40 percent only (Sen, 2003). Poverty is more pronounced in some areas and regions of the country, which suffer from flooding, river erosion, mono cropping and similar disadvantages.

• The decline in absolute poverty has been accompanied by an increase in relative poverty. The BBS data show that inequality rose during 1990s, but at a higher rate in urban areas than the countryside.

• The non-economic dimensions of poverty have registered a dramatic change in contrast to slow reduction in income poverty. The human poverty index fell from 61.3 percent in 1981-83 to 34.8 percent in 1998-2000. The human development index had nearly doubled in three decades between 1960 and 1992. It increased from 0.166 to 0.309. The frontier of human development has expanded faster in 1990s. During 1992 and 1998/99 it increased by 8.8 percent per year. There has been significant progress in child nutrition since the independence of the country. The rate of stunting has been on decline from the middle of 1980s. One survey found that the rate of stunting fell from 54.6 in 1996/97 to 44.8 percent in 1999/2000. The literacy crossed 60 percent in 1999. The gross enrollment at primary level increased from 59 percent in 1982 to 96 percent in 1999. There has been impressive progress in the reduction of infant and child mortality. The life expectancy has increased. (BIDS, 2001).

1.3.2 Towards The Millennium Development Goal

In 1990, a strikingly high 59 percent of its people lived below the national poverty line and although this number decreased to 50 percent by the year 2000, Bangladesh needs to make much greater strides if it is to cut its poverty in half by 2015 **(Table 1.3.8).** If the country were on track towards reaching MDG 1, the proportion of people living below poverty line in 2000

Table 1.3.8: - Progress Towards Achieving the MDGs in Bangladesh.

Indicator	Year	Value	Year	Value	On-track value*	Linearly projected 2015 value	MGD target value	Status
Proportion of population below poverty line (%)	1990	59	2000	50	47.2	36.5	29.5	Off-track
Prevalence of underweight children under 5 (%)	1990	67	2000	51	54	27	33.5	On-track
Undernourished people as % of total population	1990-1992	35	1998-2000	35	28	35	17.5	Off-track
Net enrolment in primary education (%)	1990	56	2000	75	73.6	100	100	On-track
Primary completion rate	2000	72.49	2002	76.82	NA	NA	100	NA
Literacy rate of 15-24 year olds	1990	42	2000	49	NA	62.5	NA	NA
Ratio of girls to boys in primary education	1990	0.81	2000	0.96	0.89	1	1	On-track
Under-five mortality rate (per 1000 live births)	1990	108	2001	94	72	76	36	Off-track
Infant mortality rate (per 1000 live births)	1990	94	2001	66	66	30	31	On-track
MMR (per 100,000 live births)	1990	480	2000	320	336	80	120	On-track
Population with sustainable access to an improve water source, rural (%)	1990	93	2000	97	94.4	100	96.5	Achieved**
Population with sustainable access to an improve water source, Urban (%)	1990	99	2000	99	99.4	99	99.5	Off-track
Population with access to sanitation, urban (%)	1991	21	2003	48	50	73	60.5	Off-track

Source: *MDG Needs Assessment: Bangladesh Country Study, 2004; Country Partner, Human Development Report, 2003; World Development Indicators, 2003; and CGSD WP NO-17, July-204.*

Notes:

*The on-track value is a linear projection that reflects where the country should have been, for the last year of available data, in order to meet the MDG target value.

**This may be questionable, depending the extent of arsenic contamination and poisoning in Bangladesh. This data was reported by World Bank Country Partners in Bangladesh in the MDG Needs Assessment Bangladesh Country Study (2004).

should have been about 47. If the rate of poverty reduction continues on its current course, it is projected that in 2015, almost 37 percent of its people will still be living below poverty line, as opposed to the MDG target value of 29.5 percent. The prevalence of underweight children (percent under five years of age) is decreasing at rate that, if sustained, will most likely lead it to meet, if not surpass, the goal of halving the benchmark 1990 number of 67 percent by the year 2015. However, the proportion of undernourished people as a percent of the total population did not diminish between 1990 and 2000, staying at 35 percent. As population has increased over the years, so has the number of the hungry in Bangladesh.

In terms of achieving the goal for universal primary education (MDG 2), Bangladesh is on track with its increasing level of primary school enrolment. The net enrolment ratio in primary education in 1990 was .56 and in 2000, the ratio had sharply increased to .75. If progress continues at its current pace, it is likely that all children will be enrolled in primary school by 2015. However, primary school completion rates should be monitored as well, as enrolment does not translate into completion.

The ratio of girls to boys in primary and secondary education is very promising, in terms of eliminating gender disparity in primary and secondary education (MDG 3, Target 4). In the 1990-91 school year, the ratio of girls to boys in primary education was .81 and in 2000-01, this ratio had gone up to .96. In secondary education, the ratio was even better at .99 in 2000-01.

Bangladesh is on track in terms reducing the infant mortality rate (IMR), but is significantly off track in terms of reducing the under-five mortality rate and the maternal mortality ratio. The IMR was 94 in 1990 and went down to 66 in 2001 and if progress continues at its current rate, the goal of reducing the IMR by two-thirds to a target of 31 will most likely be met (MDG 4, Target 5). The under-five mortality rate was 108 in 1990 and 94 in 2001. Given the current rate of decline, the goal to reduce this mortality rate by two thirds—from 108 to 36—by 2015 will most likely not be met. If the reduction were on track, the under-five mortality rate should have been about 72 in 2001.

Bangladesh is on track in its progress towards decreasing, by three-quarters, the MMR (MDG 5, Target 6). In 1990, the MMR was 480 and in 2000, this had decreased to 320, which was even lower than the on-track value of 336.

Tuberculosis and malaria-related mortality rates (per 100,000) are decreasing in Bangladesh. In 1996, the T.B.-related mortality rate was 21.9 and in 2000, it had dropped by almost half, to 11.3. Malaria-related mortality rates between 1999 and 2000 decreased from 1.2 to .64 (HDR, 2003).

The goal to halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation will most likely be met in Bangladesh (MDG 7, Target 10). In 1990, 93 percent of the rural population had sustainable safe-water access and in 2000, this was up to 97. Urban access to safe water started with an even higher benchmark of 99 percent in 1990, and was the same in 2000 **(Table 1.3.8)**. Despite these encouraging numbers, Smith, Lingas and Rahman (2000), said of arsenic poisoning, "It is estimated that of the 125 million inhabitants of Bangladesh between 35 million and 77 million are at risk of drinking contaminated water." Basic sanitation access is improving in Bangladesh. In 1991, only 21 percent of the urban population had access to basic sanitation and in 2003, this had more than doubled, at 48 percent. If progress continues at its current pace, it is likely that almost three quarters of urban Bangladeshis will have access to basic sanitation by 2015.

CHAPTER TWO

MACROECONOMY OF SOUTH ASIA AND BANGLADESH

Afghanistan, Bangladesh, Bhutan, India, The Maldives, Nepal, Pakistan and Sri Lanka comprise the countries of South Asia. South Asian economy performed well in 1990s and during the past five years it has done even better. The growth rate has improved steadily, and is today among the highest in Asia **(fig-2.1)**. Similar improvements have taken place in the macroeconomic fundamentals (lower inflation, smaller current account deficit and declining fiscal deficit in the last five years), in the saving and investment rates and in the integration with the global economy **(fig-2.2)**.

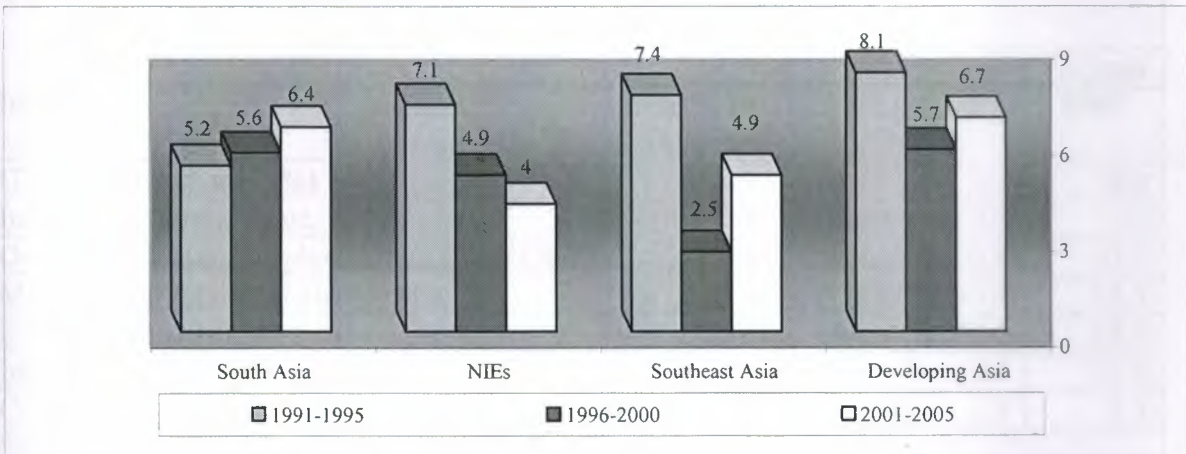


Fig 2.1: - GDP Growth (%, 1991-2005).
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

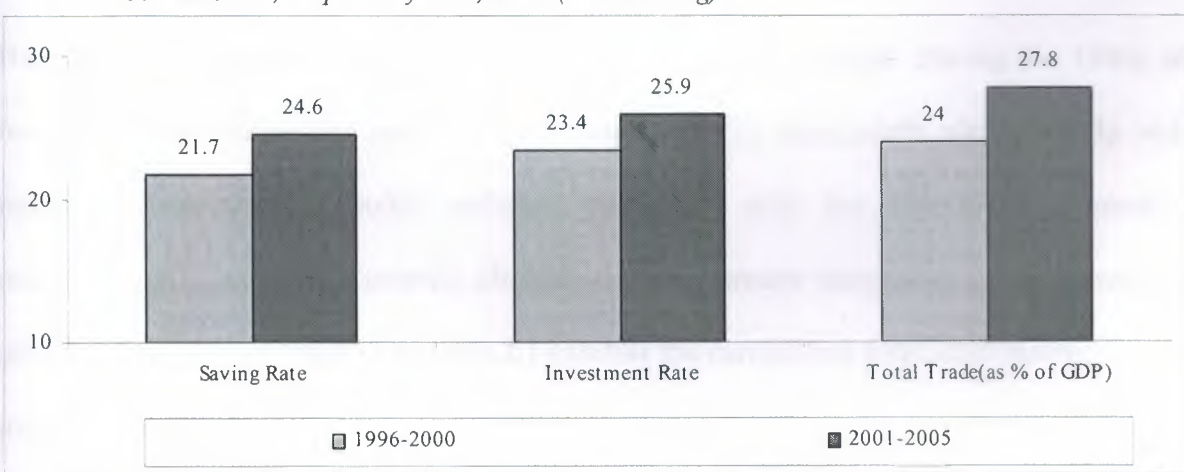


Fig 2.2: - Saving and Investment Rate and Trade to GDP Ratio in South Asia (%, 1996- 2005).
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

South Asia has grown remarkably in 2005 at 8.1%; this is well above Asia's average 7.6% growth in gross domestic product. India and Pakistan led the growth at 8.4% and 8.6% respectively whereas Bangladesh's growth was at 6.0% in 2005 and 6.7% and 6.0% are the rates which are forecasted for 2006 and 2007 respectively. Saving rates, both public and private, have also improved. FDI has increased but remains lower than in East and South East Asia. Forecasts for growth of South Asia's GDP in 2006 and 2007 remain strong at about 7.5% in which India's growth trend is clearly the predominant factor in the improvement of economic performance of South Asia, among other countries in the region Bangladesh has been modest in the trend of growth.

Table 2.1: - Macroeconomic Indicators of Bangladesh.

Indicators	Actual		Estimate	Forecast
	2001-04 Average	2005	2006	2007
GDP (annual change, %)	5.3	6.0	6.7	6.0
Inflation (annual change, %)	3.7	6.5	7.2	7.0
Overall Budgetary surplus/Deficit (% of GDP)	-4.1	-3.4	-3.9	-3.7
Money Supply (annual change, %)	14.8	16.8	19.5	15.5
Exports (annual change, %)	7.6	14.0	21.6	18.0
Imports (annual change, %)	7.2	20.6	12.1	12.0
Current Account Balance (% of GDP)	-0.3	-0.9	0.9	0.3

Sources: *SEAR, 2006(www.adb.org).*

Bangladesh is a country of opportunities for future dynamic world. During the 1980s and more rigorously during the early 1990s (Muqtada, 2003), Bangladesh adopted fairly wide-ranging macroeconomic policy reforms, ostensibly with the objectives of attaining macroeconomic stability, economic liberalization and greater integration of its economy to global trade and investment. The table 2.1 exhibits the current and forecasted macroeconomic indicators of Bangladesh.

There is supporting evidence at a sectoral level especially for Bangladesh and Sri Lanka where more open trade regimes, in combination with a more pro-FDI stance, attracted foreign investors and fuelled rapid growth in the export oriented labour intensive garments manufacturing industries.

Bangladesh launched deep and wide-ranging trade reforms in the early 1990s which includes substantial reduction and rationalization of tariffs, removal of quantitative restrictions, moved from multiple to a unified exchange rate and from fixed to a flexible exchange rate system (floating since May 2003), current account convertibility and an overall outward orientation of the trade policy regime. In consequence, Bangladesh's trade integration, measured by the trade-GDP ratio, rose from 18% in 1990 to 32% in 2004. Progress on trade openness stalled since about 1995/96, with only modest progress until about 2000. Liberalizing policies resumed with the launch of the World Bank's Development Support Credit in FY02-03 and supporting policies pursued under IMF's Poverty Reduction and Growth Facilities.

Table 2.2: - Export Growth of Bangladesh

Fiscal Year	%, Of growth
2002-2003	+ 9.39%
2003-2004	+16.10%

Source: *Bangladesh Export Statistics 2002-2003.*

The gross domestic product growth of Bangladesh in FY2006 accelerated to 6.7% because of a rebound in agriculture; strong expansion in export oriented manufacturing and continued buoyancy in services. Currently Bangladesh's export trading depends on two products – 75 percent RMG and 6 percent frozen food. **Table 2.2 and 2.3** exhibit the export growth which had achieved in FY02 and FY04 and the accumulated scenario of export-import comparison respectively.

Table 2.3: - Export as a percentage to imports for the consecutive fiscal year.			
			(Value in million US $)
Fiscal Year	Exports	Imports	Export as a percentage to imports
2001-2002	5986	8540	70.09%
2002-2003	6548	9658	67.80%
2003-2004	7603	10903	69.73%
Source: *Bangladesh Export Statistics 2002-2003.*			

However GDP growth is forecast to slow down somewhat to 6% in FY07 because lower growth is likely in the agriculture (following the post-flood high of the previous year) and due to further tightening of monetary policy, inflation was also higher in FY06 (7.2%) which was 6.5% in the FY05. Average inflation in South Asia slowed to 5.2% in 2005, which was largely due to a two-percentage point decline in inflation in India. Overall, Bangladesh had a higher rate of inflation than did South Asian as a whole. The causes of higher inflation in FY06 were due to continual rapid growth in money supply, high international commodity prices, and depreciation of the taka (Bangladeshi Currency) (8.5 in FY06). Higher domestic fuel prices and continued depreciation of the currency will exert inflationary pressure in FY07, but because of tighter monetary policy, inflation is forecast to moderate to 7%.

The fiscal deficit increased to 3.9% in FY06. However, it was lower than the original budget target of 4.5%, mainly due to underperformance of development spending. The FY07 budget envisages a fiscal deficit of 3.7% of GDP, with a sharper focus on pro-poor public spending, augmentation in revenues (increase domestic revenues as a percentage of GDP by 0.5%) and the reduction of losses of the state-owned enterprises. In India, the federal fiscal deficit at 4.1% of GDP in FY05 was slightly higher than the previous year. Afghanistan and Nepal achieved a significant reduction in the budgetary deficit in 2005. The other South Asian countries pursued expansionary fiscal policies, reflected in an increase in their fiscal deficits.

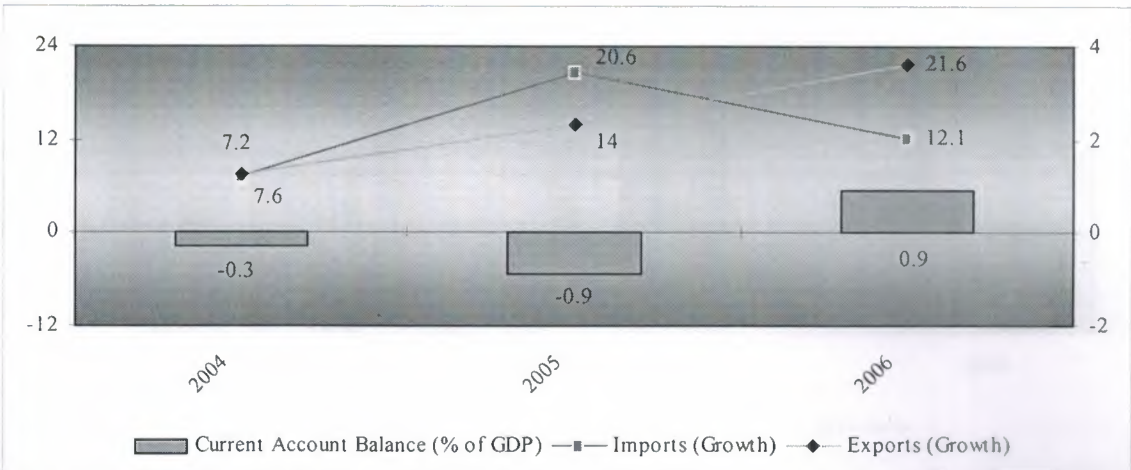


Fig 2.3: - Growth of Merchandise Exports and Imports and Current Account Balance.
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

Rapid growths in export earning (21.6%) and overseas workers' remittances (25%) and slow down in non-oil imports, helped to move the current account balance into surplus in FY06 **(fig-2.3 and 2.4)** despite the higher oil prices. Concerns about the impact on the economy of the phase out of the Multifibre Arrangement (MFA) have thus far not materialized. Textile and clothing exports, which primarily consist of garments, account for over 70% of Bangladesh's total merchandise exports. Garments exports continue to grow strongly (23%), outperforming many competing countries. Sustain growth in exports, together with the higher level of workers' remittances, should maintain a small surplus on the current account balance in FY07. However, for Bangladesh to sustain high growth in the garments sector infrastructure improvement should be required and particular attention would have to be paid to social compliance issues that have surfaced recently, including serious labour unrest.

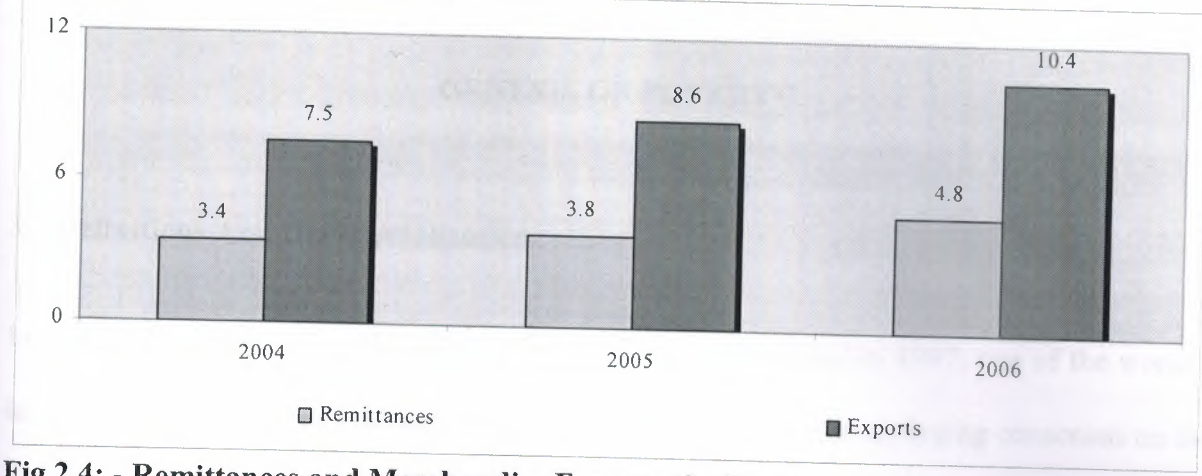


Fig 2.4: - Remittances and Merchandise Exports ($ billion).
Source: *SAER, Prepared by ADB, 2006. (www.adb.org).*

CHAPTER THREE

GENESIS OF POVERTY

3.1 Definitions And Conceptualization

In a special edition of the *World Development* journal, published in 1997, one of the world's leading experts on poverty, Michael Lipton, argues that there is an emerging consensus on the analysis of poverty and the ways in which it can be reduced (Lipton 1997). In terms of its definition and measurement, Lipton suggests that the principle components of this consensus are based on a growing recognition that:

- Poverty may adequately be defined as private consumption that falls below some absolute poverty line, which he terms 'absolute private consumption poverty' (PCP).
- PCP is best measured by calculating the proportion of the population who fall below a poverty line (the head count). This poverty line is usually based on an estimated minimum dietary energy intake, or an amount required for purchase a minimum consumption bundle;
- Low level of capabilities (such as literacy and life expectancy) are major components of poverty, but are best measured separately rather than amalgamated with consumption measures;

Lack of consumption is more readily measured than lack of income, due to the ability of poor household to smooth their consumption over time in the face of income fluctuations arising from seasonality or shocks.

3.1.1 Chronic Poverty – Who, Where And Why

In the recently launched Chronic Poverty Report, the CPRC (Chronic Poverty Research Center) estimates that between 300 and 420 million people are trapped in poverty (Table 3.1.1). They experience deprivation over many years, often over their entire lives, and sometimes pass poverty on to their children. Many chronically poor people die prematurely from health problems that are easily preventable. For them, poverty is about deprivation in many dimensions – hunger and undernutrition, dirty drinking water, illiteracy, a lack of access to health services, social isolation and exploitation, as well as low income and assets. Such deprivation exists in a world that has the knowledge and resources to eradicate it.

Table 3.1.1: - Preliminary Estimate of the World Chronically Poor.

Region	Population (millions)	Number of US $1/day poor for countries where this is available (millions)	Estimated US $/day poverty for entire region (millions)	Estimated chronic poverty for entire region (low estimate, millions)	Estimated chronic poverty for entire region (high estimate, millions)	Average percentage of poor assumed chronically poor over a five year period (low estimate)	Average percentage of poor assumed chronically poor over a five year period (high estimate
Sub Saharan Africa	658.7	216.4	303.3	91.0	121.3	30.0%	40.0%
East Asia and Pacific	1807.8	277.0	312.8	53.7	84.9	17.2%	27.2%
South Asia	1355.1	524.7	535.6	133.9	187.5	25.0%	35.0%
Rest of World	1149.6	81.0	88.0	19.8	28.0	22.5%	31.8%
All	4971.2	1099.1	12339.7	298.3	421.7		

Source: *CPRC, 2004.*

The chronically poor are not a distinct group, but usually are those who are discriminated against, stigmatized or 'invisible': socially marginalized ethnic, religious, indigenous, nomadic and caste groups; migrants and bonded laborers; refugees and internal displaces;

people with impairments and some illnesses (especially HIV/AIDS). In many contexts, poor women and girls, children and older people (especially widows) are more likely to be trapped in poverty.

While chronically poor people are found in all parts of the world, the largest numbers live in South Asia (134 to 188 million). The highest incidence is in sub-Saharan Africa, where between 30% and 40% of all present day 'US$1/day' poor people are trapped in poverty: an estimated 90 to 120 million people. East Asia has significant numbers of chronically poor people, between 54 to 85 million, most of whom live in China (Moore, 2004).

The causes of chronic poverty are complex and usually involve sets of overlaying factors. Sometimes they are the same as the causes of poverty, only more intense, widespread and lasting. In other cases, there is a qualitative difference between the causes of transitory and chronic poverty. Rarely is there a single, clear cause. Most chronic poverty is a result of multiple interacting factors operating at levels from the intra-household to the global. Some of these factors are maintainers of chronic poverty: they operate so as to keep poor people poor. Others are drivers of chronic poverty: they push vulnerable non-poor and transitory poor people into poverty out of which they cannot find a way out. Not all chronically poor people are born into long-term deprivation. Many slide into chronic poverty after a shock or series of shocks from which they are unable to recover. A poverty-related shock experienced at a particular time in an individual or household's life-course – including during adolescence or young adulthood – can often exacerbate the effect.

3.2 Dimensions Of Poverty

Poverty denotes people's either gender exclusion from socially adequate living standards and it encompasses a range of deprivations. The dimensions of poverty cover distinct aspects of human capabilities:

Economic capabilities *(income, livelihoods, decent work)* mean the ability to earn an income, to consume and to have assets, which are all key to food security, material well-being and social status. These aspects are often raised by poor people, along with secure access to productive financial and physical resources: land, implements and animals, forests and fishing waters, credit and decent employment.

Human capabilities *(health, education)* are based on health, education, nutrition, clean water and shelter. These are core elements of well-being as well as crucial means to improving livelihoods. Disease and illiteracy are barriers to productive work, and thus to economic and other capabilities for poverty reduction. Reading and writing facilitate communication with others, which is crucial in social and political participation. Education, especially for girls, is considered the single most effective means for defeating poverty and some of its major causal factors, for example illness – in particular AIDS –and excessive fertility.

Political capabilities *(empowerment, rights voice)* include human rights, a voice and some influence over public policies and political priorities. Deprivation of basic political freedoms or human rights is a major aspect of poverty. This includes arbitrary, unjust and even violent action by the police or other public authorities that is a serious concern of poor people.

Powerlessness aggravates other dimensions of poverty. The politically weak have neither the voice in policy reforms nor secure access to resources required to rise out of poverty.

Socio-cultural capabilities *(status, dignity)* concern the ability to participate as a valued member of a community. They refer to social status, dignity and other cultural conditions for belonging to a society which are highly valued by the poor themselves. Participatory poverty assessments indicate that geographic and social isolation is the *main* meaning of poverty for people in many local societies; other dimensions are seen as contributing factors.

Protective capabilities *(insecurity, risk, vulnerability)* enable people to withstand economic and external shocks. Thus, they are important for preventing poverty. Insecurity and vulnerability are crucial dimensions of poverty with strong links to all other dimensions. Poor people indicate that hunger and food insecurity are core concerns along with other risks like illness, crime, war and destitution. To a large extent, poverty is experienced intermittently in response to seasonal variations and external shocks – natural disasters, economic crises and violent conflicts. Dynamic concepts are needed because people move in and out of poverty. Today's poor are only partly the same people as yesterday's or tomorrow's. Some are chronically poor or inherit their poverty; others are in temporary or transient poverty.

The links indicated by arrows in Figure 3.2.1 are significant. Each box represents an important dimension of poverty, which affects – and is affected by – all the others. Household members may consume little and be vulnerable partly because they lack assets, often because of inadequate income, poor health and education, or because they lose their few productive assets as a result of shocks. Lack of human rights and political freedoms indicates a risk of violent conflict shocks. Vulnerability and social exclusion hamper human and political capabilities, reducing incomes and assets, and so on. The fact that different dimensions of poverty are tightly interrelated, while still distinct and imperfectly correlated, is a major reason for a multidimensional concept.

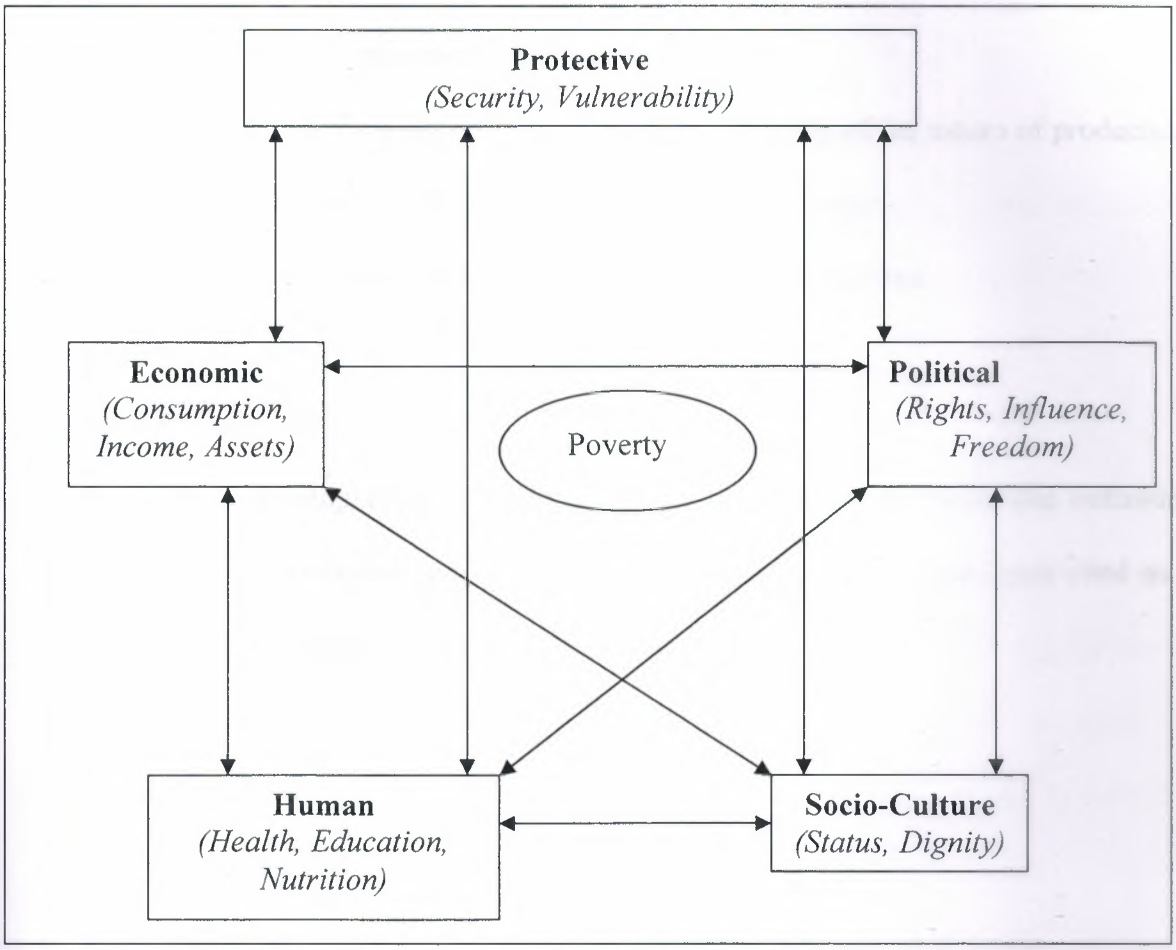


Fig 3.2.1: - Interactive Dimensions of Poverty and Well-being.

3.3 Causes Of Poverty

Many different factors have been cited to explain why poverty occurs. However, no single explanation has gained universal acceptance. Some possible factors include:

- Poverty itself, preventing investment and development.
- Lack of capitalism for example, lack of private ownership of the means of production, excessive regulation, and the bulk of profits taken by the state.
- Poor, failed, or absence of an infrastructure, lack of opportunities.
- Government corruption.
- Lack of functioning democracy.
- Lack of social integration. Competition instead of cooperation. (Note that outlawing competition, investment and other free market principles, has also been cited as a cause of poverty, particularly in the Communist bloc.)
- Crime.
- Natural disasters.
- Substance abuse, such as alcoholism and drug abuse.
- Procrastination.
- Natural factors such as climate or environment.
- Historical factors, for example imperialism and colonialism.
- Overpopulation. Note that population growth slows or even become negative as poverty is reduced due to the demographic transition.
- War, including civil war, genocide, and democide.
- Lack of education.
- Lack of social skills.
- Exploitation of the poor by the rich.

- Even if not exploitation in the sense of theft, the already wealthy may have easier to accumulate more wealth, for example by hiring better financial advisors.
- Matthew effect the phenomenon, widely observed across advanced welfare states, that the middle classes tend to be the main beneficiaries of social benefits and services, even if these are primarily targeted at the poor.
- Cultural causes, which attribute poverty to common patterns of life, learned or shared within a community. For example, some have argued that Protestantism contributed to economic growth during the industrial revolution.
- Individual beliefs, actions and choices.
- Mental illness and disability.
- Geographic factors, for example fertile land and access to natural resources.
- Disease, specifically Diseases of poverty: AIDS, malaria, and tuberculosis and others overwhelmingly afflict the poor, which perpetuate poverty by diverting individual, community, and national health and economic resources from investment and productivity. Further, many tropical nations are affected by diseases like Malaria and Schistosomiasis that are not present in temperate climates.
- Inadequate nutrition in childhood in poor nations may lead to physical and mental stunting.
- High taxes.
- Age discrimination, gender discrimination, and racial discrimination.

3.4 Effects Of Poverty

Some possible effects of poverty, some that may also be causations of poverty as mentioned above, thus complicating the subject further:

- Extreme hunger and starvation
- Lack of sanitation
- Diseases and disabilities; low health care services
- High crime rate
- Increased suicides
- Increased risk of political violence; such as terrorism, war and genocide
- Homelessness
- Lack of opportunities for employment
- Low literacy
- Loss of population due to emigration
- More susceptible to death from natural disasters.
- Increased discrimination
- Lower life expectancy
- Drug abuse
- Depression

CHAPTER FOUR

CONJUNCTION OF ECONOMIC GROWTH AND POVERTY

4.1 Economic Stability And Growth

Economic growth is the rate of increase of the total output of the nation and it is the single most important factor influencing poverty. Numerous statistical studies have found a strong association between national per capita income and national poverty indicators, using both income and nonincome measures of poverty. One recent study consisting of 80 countries covering four decades found that, on average, the income of the bottom one-fifth of the population rose one-for-one with the overall growth of the economy as defined by per capita GDP (Dollar and Kraay, 2000). Moreover, the study found that the effect of growth on the income of the poor was on average no different in poor countries than in rich countries, that the poverty-growth relationship had not changed in recent years, and that policy induced growth was as good for the poor as it was for the overall population. Another study that looked at 143 growth episodes also found that the "growth effect" dominated, with the "distribution effect" being important in only a minority of cases. These studies, however, establish association, but not causation. In fact, the causality could well go the other way. In such cases, poverty reduction could in fact be necessary to implement stable macroeconomic policies or to achieve higher growth (Ames et al, 2001).

Economic growth originates from growth of capital stock, growth of labor force and technological change which augments efficiency. According to IMF (2005) economic growth so generated can improve aggregate economic conditions bypassing the poor which is not desirable especially in a country like Bangladesh, where the incidence of poverty is very high. The Government has therefore opted for pro-poor growth, i.e., growth that reduces poverty. The principal factor determining the rate of growth in Bangladesh is the rate at which the nation's capital stock is augmented, i.e. the rate of investment. A major challenge of economic growth and poverty reduction in Bangladesh is raising the investment rate which would lead to higher growth rate.

The funds for investment come from two sources: national savings and foreign borrowing. Gross domestic savings, comprising both public and private savings, is fairly low in Bangladesh. An investment policy that maximizes employment is likely to be most helpful in reducing poverty. This requires investment in labor-intensive industries and in industries that support them. Since most of the poor people of the country live in rural areas where poverty is more acute, one possible strategy would be to promote the growth of industries in rural areas. This would, however, require a reorientation of the structure of government administration and the provision for public services with greater focus on the rural areas.

Private investment can come not only from domestic but also from foreign sources. In fact foreign direct investment has played some role in the early phase of RMG industry and has been critical to the development of the minerals sector. FDI is important not only for foreign exchange and savings gap but also for employment creation, technology transfer, and improvement in managerial skills and social transformation. Bangladesh has a very liberal foreign direct investment regime. There are no restrictions on foreign equity participation or on repatriation of profits and income. No prior approval is required for foreign investment.

The main factor that contributed to the modest inflow of FDI is Bangladesh's poor image with regard to policy discontinuity, bureaucratic red-tapism and corruption, underdeveloped infrastructure, poor port management, deficient legal system, political disturbances and unsatisfactory law and order situation. While improvements in these areas are essential pre-requisites for attracting FDI, Bangladesh needs to address its image problem and come up with well-advertised business support services aimed at reducing the cost of doing business. For example, immigration and baggage handling for incoming business visitors should be streamlined, so that they have minimum waiting time at the airport. Similarly, issuance of multiple entry visa and work permit should be made hassle free for deserving applicants. BOI's business support services should be made sufficiently attractive to potential foreign investors.

Macroeconomic stability is the cornerstone of any successful effort to increase private sector development and economic growth. Cross-country regressions using a large sample of countries suggest that growth, investment, and productivity are positively correlated with macroeconomic stability (Easterly and Kraay, 1999). Without macroeconomic stability, domestic and foreign investors will stay away and resources will be diverted elsewhere.

Macroeconomic stability provides a favorable and conducive environment for accelerated economic growth and poverty reduction. It is especially important because the burden of macroeconomic instability falls disproportionately on the poor and the vulnerable as they are least able, on their own, to protect themselves from its harmful effects. Macro instability can exacerbate poverty and adversely affect the vulnerable groups in a number of ways:

First, high inflation can erode real wages, particularly for those with a low fixed income, since frequently nominal wages do not keep pace with inflation. High inflation increases risk and uncertainty associated with investment and economic activities both in urban and rural areas. Indeed, agricultural producers in rural areas can be particularly hard hit if the distribution and marketing channels are weak since much of the rise in agricultural prices may be usurped by middlemen.

Secondly, high interest rates associated with macroeconomic instability hurt not only investment in the urban and formal sector but also adversely affect the rural and informal sectors, the source of livelihood of the poor. Thirdly, volatility of the exchange rate resulting from macroeconomic instability negatively impacts on foreign trade and foreign investment in the country. Foreign investment may be linked to poverty because of the potential economic opportunities it can provide to the domestic economy through employment, technology and skill transfer, market access and linkages. Fourthly, high inflation can also erode the real value of government revenue and thus the ability of the government to provide adequate social services for the poor as expenditure on social services may be compromised in times of fiscal pressure.

Macroeconomic instability may inhibit the expansion of investment activities since business decision-making becomes very risky in an environment where the amplitude of fluctuations of the principal macroeconomic parameters is large and uncertain. With stagnant investment, growth in employment slows down. Thus the main channel of poverty reduction is constricted, depriving a large section of the poor of the opportunity of breaking out of the shackles of poverty.

The transition of Bangladesh from a basket case in the 1970s to an economy of sustained moderate growth with macroeconomic stability is the product of millions of laborer working in the fields, factories, mines, water bodies, seas, forests and offices. The contribution of labor to the national economy is often overshadowed by the problem of widespread underemployment and periodic or long-term unemployment primarily caused by lack of complementary capital stock. The major parts of income, if not all, of most people are derived form the employment of their labor services and hence labor-employment income determines their income and well-being. This is especially true for the poor and for her or him underemployment or lack of productive employment implies being caught in a poverty trap. This is why employment generation is so critical to the accelerated poverty reduction strategy. Economic well being of the ordinary people cannot be improved without raising the total volume of employment and conditions of employment

The expansion of the economy through growth has created employment opportunities resulting in an increase in the number of employed population from 34.8 million in 1995-96 to 39.0 million in 1999-00 and further to 44.3 million in 2001-02. However, dynamic changes in the labour market especially the increase in the labour force participation rate as well as slow growth of employment have resulted in unchanged unemployment rate at 4.3 percent between 1999-00 and 2001-02 and a jump in the underemployment rate (IMF Country Report, 2005).

A projection of employment generation has been made for the period up to 2007/08 (Table 4.1.1). Employment is projected to increase from 44.30 million persons in FY03 to 58.08 million persons in FY08 thus adding 13.78 million persons to the employed pool. Of these 9.03 million persons are expected to find employment in the rural areas while 4.75 million persons are estimated to be absorbed in the urban areas. During the period (FY05-FY07, which is PRSP period), 8.02 million new jobs are estimated to be created in the economy with 5.39 million in rural and 2.63 million in urban areas (PRSP 2005).

Table 4.1.1: - Employment Projection (million persons), FY03-08.

	FY03	FY04	FY05	FY06	FY07	FY08
Total Employment	44.30	46.73	48.92	51.69	54.75	58.08
Rural	33.60	34.96	36.64	38.30	40.35	42.57
Urban	10.70	11.77	12.28	13.39	14.40	15.51
New Employment	-	2.43	2.19	2.77	3.06	3.33
Rural	-	1.36	1.68	1.66	2.05	2.22
Urban	-	1.07	0.51	1.11	1.01	1.11

Source: *PRSP Calculations, 2005.*

Bangladesh thus has been less successful in reaping the full benefit of the virtuous circle of economic growth leading to poverty reduction via growth of employment with higher productivity. The policy challenge for Bangladesh is to accelerate the rate of growth and make it more employment friendly. The future growth process must generate employment opportunities for the poorer sections of the population and the returns from employment, both self and wage/salary employment, must generate adequate earnings for them so that they can break out of poverty. In addition to this overall outcome, the growth process must also address some specific features of the labour market. These include low growth in formal employment opportunities, with 80 percent of workers being employed in the informal sector, high rates of unemployment amongst the youth, increase in unemployment and poverty among certain groups who were earlier employed but were laid off or retrenched due to the privatization and closing down of mills and factories, persistent gender inequalities with respect to employment and wages in spite of the increase in women's share of wage employment in manufacturing, inadequate coverage of existing social protection schemes, child labour, and trade union rights and representation in general in a liberalized and globalized economy.

4.2 Fiscal Policy On Economic Growth And Poverty Reduction

Certainly, it is vital to improve our technical understanding of how fiscal policy works for development, but fiscal policy is more than just a question of good economics; it is also fundamental to the politics of development. Who gets what from the state, how that public spending is financed, and who pays for it, say much about how a society is governed and whether policy choices do—or do not—give priority to the poor.

An effective state is characterized by an ability to mobilize revenue and to spend it on infrastructure, services, and public goods that both enhance the human capital and well-being of communities (especially the poor) as well as stimulate investment and employment creation by the private sector. An effective state also manages the public finances to ensure that macroeconomic balance is maintained, with policy neither too restrictive to discourage private investment and growth, nor too accommodative to create high inflation and crowd out private investment. Fiscal issues are therefore at the heart of the state's role in the development process and failure in this policy area—whether it is in taxation, public expenditures or in managing the fiscal deficit and public debt—can quickly undermine growth and poverty reduction. Moreover, for countries vulnerable to violent conflict fiscal weakness can be fatal to social peace when one or more ethnic, religious, or regional group is taxed unfairly—or receives too little from the allocation of public spending.

Fiscal policy also bears on the long-standing debate over aid effectiveness. The pioneers of development economics in the 1950s and 1960s assumed that the basic structures of public expenditure management and taxation that we take for granted in rich countries would not take too long to establish themselves in post-independent Africa and Asia. However they were sorely disappointed in many of the new African states, and in some of the Asian ones as well. In the 1970s poverty reduction was, for the first time, placed at the forefront of development; aid was intended to help governments meet basic needs but the assumption was again made that the associated pro-poor public spending would not be too difficult a job to organize. Pessimism set in with the 1980s and aid flows became organized around highly controversial programs of structural adjustment, including fiscal reforms that often included crude mechanisms to curb public spending and bring fiscal deficits down (often resulting in unnecessary cuts in already low levels of pro-poor spending). The 1990s witnessed a growing recognition of the fiscal burden of servicing the debt left by the accumulation of aid loans and, towards the end of the decade, the start of a shift in aid towards budgetary support and away from project aid as country 'ownership' came into vogue. This trend is continuing today, although it periodically stumbles over the governance dimensions of fiscal policy, not least in countries reconstructing from conflict and those in unstable regions (notably the Horn of Africa).

The debate on aid and debt relief has taken on a particular resonance over the last year, generating much heat but also some light, with a succession of key events including the UN Millennium Summit in September 2005.

Inevitably much of the debate, while certainly well-meaning, has been broad-brush, sometimes simplifying the issues in order to mobilize public support for increased aid. Amidst the earnest pleas for more aid and debt relief, there are dissenting voices, arguing that the poorest countries will find it difficult to absorb and effectively use the additional resources, which the international community is devoting so much time to mobilizing. Certainly for those working on fiscal issues at the country-level how best to use aid (and domestic revenues) has always been a priority issue, and one that raises tough choices for the public finances, which cannot be glossed over. At the heart of the issue of aid effectiveness (as well as the related impact of debt relief), is state capacity in poor countries. This includes the quality and honesty of the public administration, and its ability to channel resources to the best uses, particularly to infrastructure and services which are of most benefit to the poor.

4.2.1 The MDGs Can't Be Achieved Without Good Fiscal Policy

Whether you believe that aid and debt relief can achieve their laudable goals depends therefore, in large part, on your view of the economics and politics of fiscal policy. The successful countries will be those that build effective systems of public expenditure management to transmit these extra resources into development spending and systems of taxation that mobilize domestic revenues to complement external official flows. And they will demonstrate an ability to manage the fiscal deficit and government debt burden; in particular to respond to the external (and internal) shocks which challenge policymaking in poor countries that are mostly dependent upon a narrow range of primary commodities. This is no easy set of tasks, and our ability to get anywhere near meeting the ambitious Millennium Development Goals depends to a large extent on improving the quality of fiscal policy in poor countries. This is especially the case in resource-rich countries where resource extraction is often an enclave activity (oil and natural gas in West Africa, for example) so that growth does not directly generate much in the way of increased employment; in these countries the main way that growth can reduce poverty is through the transmission of the resource revenues into higher pro-poor public spending. For the most part this is not happening, and the poor are missing out on the revenue boom provided by higher commodity prices (especially oil) with revenues instead flowing into spending for elites (or directly into their pockets). Similarly, in societies characterized by high levels of inequality in access to land and other productive assets, the best means for redistribution may not lie in redistributing these assets themselves but by incorporating redistribution into the fiscal system—through progressive taxation (of capital gains from land sales, for example) to finance public spending that creates better livelihoods and human capital for the poor. In summary, growth can contribute to poverty reduction even in societies with very high levels of asset inequality, but only if fiscal institutions are built and focused on the poor.

4.2.2 Fiscal policy For Development Key points

An effective state is characterized by an ability to mobilize revenue and to spend it well on infrastructure and public services with high returns for growth and poverty reduction. Economic growth raises the amount of revenue that can be mobilized through taxation: building an effective tax system is therefore a foundation for higher public spending to convert growth into poverty reduction.

Without good public expenditure management, the poorest countries will find it difficult to absorb and make good use of the additional resources provided by increased aid, debt relief, and 'innovative' sources of development finance.

Improving the governance dimension of fiscal policy, including increased transparency in the collection and use of public money, will determine progress in shifting aid towards budgetary support and away from project aid—thereby increasing country ownership.

Failure in fiscal policy can quickly undermine development and, in the worst cases, contribute to conflict as grievances concerning an unfair distribution of spending and taxation spill over into violence.

4.3 Effect Of Governance On Economic Stability

Most economists would agree that sustained economic growth is the surest way to fight poverty. There is considerable evidence, both at the macro and the micro levels, that good governance and a competitive investment climate are important in achieving and sustaining high growth rates. Therefore, to sustain the recent strong growth performance over the longer term, it is important for South Asia to continuously improve governance and competitiveness through appropriate policies, reforms, and investments.

In a recent ADB Working Paper, Hasan et al. (2006) examine the relationship between poverty, economic growth, and indicators of business regulations and governance. They find that "good governance, as measured by a strong commitment to the rule of law, a competent and efficient government sector, and control of corruption matters for poverty reduction largely through effect on growth." They also find that less cumbersome regulations governing private sector operations matter for economic growth as well as poverty reduction more directly.

In another paper, Dollar et al. (2005), take a firm-based approach to address the question "why some locations in the developing world grow so rapidly, while others stagnate." Their hypothesis is that differences in the investment climate across locations explain much of the variation in growth rates. Investment climate can be defined as those factors that determine "the effective functioning of product markets, financial and non-financial factor markets, and infrastructure services, including, in particular, weaknesses in an economy's legal, regulatory and institutional framework" (IBRD 2003).

So it's a proclamation that to achieve targeted economic growth and more rigorously for the stabilization of current economic growth rate government have to have firm determination to create a favorable investment climate. Dollar et al. focus on the impact of the investment climate on a range of variables, and conclude that "investment climate matters for the level of productivity, wages, profit rates, and the growth rates of output, employment and capital stock at the firm level." For a sample of firms in the garment industry in Bangladesh, India, Pakistan, and the People's Republic of China (PRC), they conclude that "productivity improvements would be 18% for firms in Bangalore, 43% for those in Dhaka, 78% for those in Calcutta, and 81% for those in Karachi" if cities in South Asia had the same investment climate characteristics as Shanghai.

Against this background, the objective of this section is to concentrate our attention on elements of governance and the investment climate that are today most crucial to sustaining economic growth in South Asia. The approach is to benchmark performance of South Asian countries on the relevant governance and investment climate indicators against those of countries in Southeast Asia and PRC, which have an established track record of sustained high economic growth.

Such a comparison, by identifying areas where there is substantial scope for improvement, can provide guidance in determining priorities for policies, reforms, and investments in South Asia.

The six governance dimensions are identified as relevant for poverty reduction and growth particularly for South Asia and, nonetheless, within the region Bangladesh – from the beginning - is confronting for the lack of the following dimensions which include: voice and accountability, political stability, the rule of law, government effectiveness, control of corruption, and the quality of regulations. Considering these six pillars, Table 4.3.1 shows that South Asia particularly lags behind ASEAN 4 in regulatory quality and government effectiveness.

Table 4.3.1: - Six Governance Indicators for SA in comparison with Mekong3 and East Asian Region for 2005.			
GI	*Region*		
	Percentile Rank (0 – 100)		
	South Asia (SA)	*East Asia (EA)*	*Mekong 3*
VA	25.9	50.8	13.2
PS/NV	25.4	61.3	42.6
GE	37.0	49.6	25.2
RQ	35.6	46.9	21.3
RL	38.2	55.2	21.6
CC	34.6	46.8	15.0
Source: Kaufmann D, A. Kraay, and M. Mastruzzi 2006. Governance Matters V: Govrnance Indicators for 1996-2005. Available *http://www.worldbank.org/wbi/governance/govdata. Data Arranged personally.*			

Note: - The first column in the table depicts Governance Indicator *(GI)* which are: *VA*-Voice and Accountability; *PS/NV*-Political Stability/No Violence; *GE*-Government Effectiveness; *RQ*- Regulatory Quality; *RL*- Rule of Law; *CC*- Control of Corruption and Mekong3 represents *Cambodia, Laos PDR and Vietnam.*

The gap in rule of law and control of corruption is small. Note, on the other hand, that South Asia performs better in all respects compared to Mekong 3. India's ratings are equal to or better than those of the PRC in some pillars, while they lag behind those of ASEAN 4 for the quality of regulations and government effectiveness **(Table 4.3.2).**

Table 4.3.2: - Comparison of six GIs in between India, PRC and ASEAN-4.			
GI	***Country / Region***		
	Percentile Rank (0 – 100)		
	India	*PRC*	*ASEAN-4*
VA	55.6	6.3	43
PS/NV	22.2	39.2	29.5
GE	51.7	52.2	59.8
RQ	41.1	44.6	54.8
RL	56.0	40.6	45.4
CC	46.8	30.5	43.6
Source: Kaufmann D, A. Kraay, and M. Mastruzzi 2006. Governance Matters V: Govrnance Indicators for 1996-2005. Available *http://www.worldbank.org/wbi/governance/govdata. Data Arranged personally.*			

Note: - In this table *PRC* represents People's Republic of China and *ASEAN-4* comprises together with Indonesia, Malaysia, Philippines and Thailand.

As for the investment climate indicators, infrastructure and the efficiency of markets, **Figure 4.3.1** clearly illustrates that the major scope for improvement in South Asia lies in the quality of its infrastructure. The poor quality of infrastructure is particularly apparent for South Asian countries other than India (with an average score of 26 out of 100). While the latest *Global Competitiveness Report* seems to indicate that India has almost caught up with both the PRC and ASEAN 4, it is widely perceived that the quality of infrastructure is slowing manufacturing growth in India.

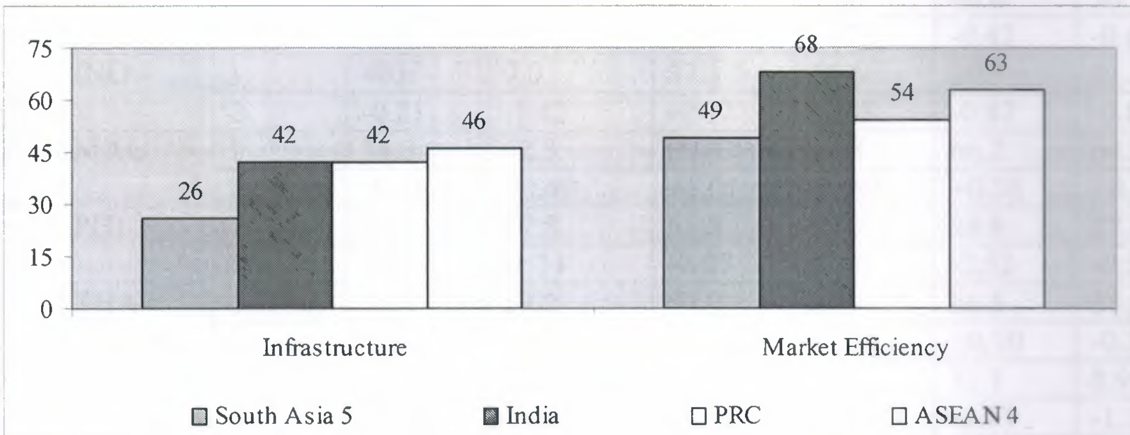


Fig 4.3.1: - Infrastructure and Market Efficiency (in percentile).
Source: World Economic Forum, Global Competitiveness Report 2006-2007.Available *http://www.weforum.org/pdf/Global_Competitiveness_Reports/Reports/gcr_2006/ chapter_1_1.pdf*

The Table 4.3.3 has all six key governance indicators information for SA, PRC together with Mekong 3 and ASEAN 4, which has drawn important attention on relative position among the countries within the region.

The rest of this section focuses on the three main areas in which there is considerable scope for South Asian countries to improve as compared to the top performers: the quality of regulations, the effectiveness of government interventions, and the quality of infrastructure.

Table 4.3.3: - All six Governance Indicators of SA, PRC, ASEAN-4 and Mehong-3 for the year 2005.

	GI	Code	VA	PS/NV	GE	RQ	RL	CC
COUNTRY NAME	BAN	1	31.4	6.6	21.1	14.9	19.8	7.9
		2	-0.50	-1.65	-0.90	-1.07	-0.87	-1.18
	IND	1	55.6	22.2	51.7	41.1	56.0	46.8
		2	+0.35	-0.85	-0.11	-0.34	+0.09	-0.31
	PAK	1	12.6	5.7	34.0	27.7	24.2	15.8
		2	-1.23	-1.68	-0.53	-0.60	-0.81	-1.01
	SRI	1	39.6	10.8	40.7	50.0	54.1	47.3
		2	-0.26	-1.25	-0.41	-0.21	+0.00	-0.31
	MDV	1	20.3	70.8	59.8	66.8	60.4	48.8
		2	-1.09	+0.76	+0.18	+0.50	+0.33	-0.28
	NEP	1	14.5	1.9	15.3	28.7	25.1	29.1
		2	-1.19	-2.36	-0.97	-0.59	-0.81	-0.71
	PRC	1	6.3	39.2	52.2	44.6	40.6	30.5
		2	-1.66	-0.18	-0.11	-0.28	-0.47	-0.69
	INO	1	40.6	9.0	37.3	36.6	20.3	21.2
		2	-0.21	-1.42	-0.47	-0.45	-0.87	-0.86
	MAL	1	34.3	62.3	80.4	66.8	66.2	64.5
		2	-0.41	+0.49	+1.01	+0.50	+0.58	+0.27
	PHI	1	47.8	17.5	55.5	52.0	38.6	37.4
		2	+0.01	-1.11	-0.07	-0.02	-0.52	-0.58
	THA	1	49.3	29.2	66.0	63.9	56.5	51.2
		2	+0.07	-0.55	+0.40	+0.38	+0.10	-0.24
	CAM	1	23.7	31.1	18.7	27.2	11.1	8.9
		2	-0.94	-0.44	-0.94	-0.62	-1.13	-1.12
	LAOS	1	8.2	37.8	12.0	10.9	11.6	9.4
		2	-1.54	-0.27	-1.09	-1.21	-1.12	-1.10
	VIN	1	7.7	59.0	45.0	25.7	42.0	26.6
		2	-1.10	+0.34	-0.31	-0.64	-0.45	-0.76

Source: Kaufmann D, A. Kraay, and M. Mastruzzi 2006. Governance Matters V: Govrnance Indicators for 1996-2005. Available *http://www.worldbank.org/wbi/governance/govdata. Data Arranged personally.*

Note: - The first column in the table depicts Governance Indicator *(GI)* which are: *VA*-Voice and Accountability; *PS/NV*-Political Stability/No Violence; *GE*-Government Effectiveness; *RQ*- Regulatory Quality; *RL*- Rule of Law; *CC*- Control of Corruption and
PRC represents *The People's Republic o China.*
Mekong3 represents *Cambodia, Laos PDR and Vietnam;*
ASEAN-4 comprises together with *Indonesia, Malaysia, Philippines and Thailand.*
Code 1 means percentile Rank (0-100) and 2 means Estimate (-2.5 – +2.5).

4.3.1 Regulatory Quality

A good regulatory environment results in a healthy balance between government intervention and the market mechanism and provides a stable and supporting business environment. McLiesh and Martin (2005) estimate that if South Asian countries would improve the quality of regulations to the level of Thailand, the additional GDP growth could amount to 0.8% for Bangladesh and Pakistan, and to 1.6% for India. One of the areas that is overregulated relates to setting up and running a business enterprise.

Firms are frequently confronted with a heavy burden of administrative regulations in their daily activities. Complying with administrative requirements such as permits and regulations issued by the government is substantially more complicated in South Asia. For example, the permits and licensing fees associated with building a warehouse in South Asia as a percentage of income per capita are on the average substantially higher than in the PRC and Southeast Asia. India exceeds the regional average, costing an estimated 606% of income per capita while in Pakistan, these costs are as high as 973%. This contrasts starkly to the costs in Thailand (11%) or even Malaysia (78%) and the PRC (84%) (Fig- 4.3.2).

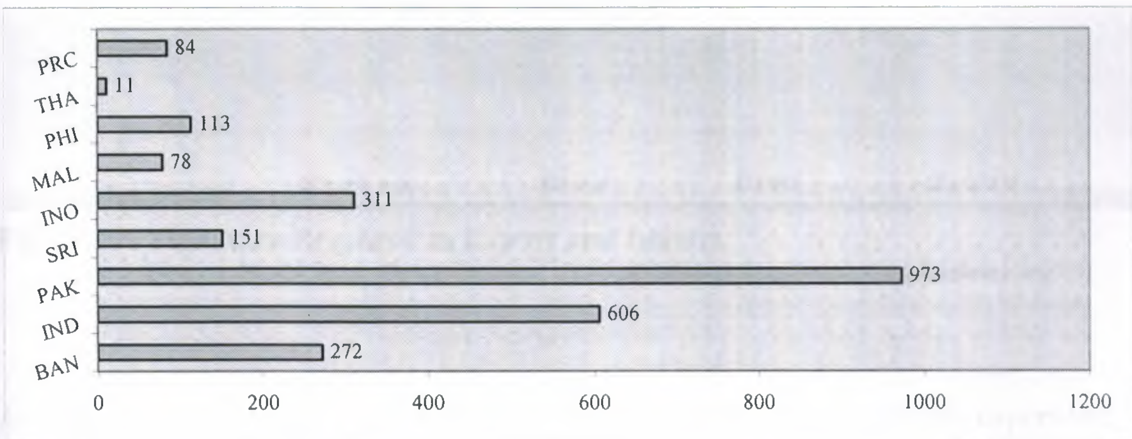


Fig 4.3.2: -Cost of Permits and Licenses to construct a warehouse (% of income/capita).
Source: *World Bank, Doing Business, 2007. Available: http//www.doingbusiness.org*

Also the complexity of the taxation system is singled out as a weak regulatory feature in South Asia. In some cases, the cost of compliance with tax regulations even exceeds the revenues collected. The frequent use of exemptions and exclusions complicate the taxation system and make the system vulnerable to tax avoidance and evasion, and to discretionary tax assessments.

Another area of economic activity that suffers from excessive regulation is international trade. In terms of paperwork related to trade, the number of required documents is roughly the same as in ASEAN 4 and the PRC, but the number of signatures required on these documents is considerably higher in South Asia. While it only takes an average of 5 signatures to export goods and 7 to import in ASEAN 4, the corresponding numbers of signatures in South Asia are 12 to export and 24 to import. In India, the number is as high as 22 to export and 27 to import **(Figure 4.3.3).**

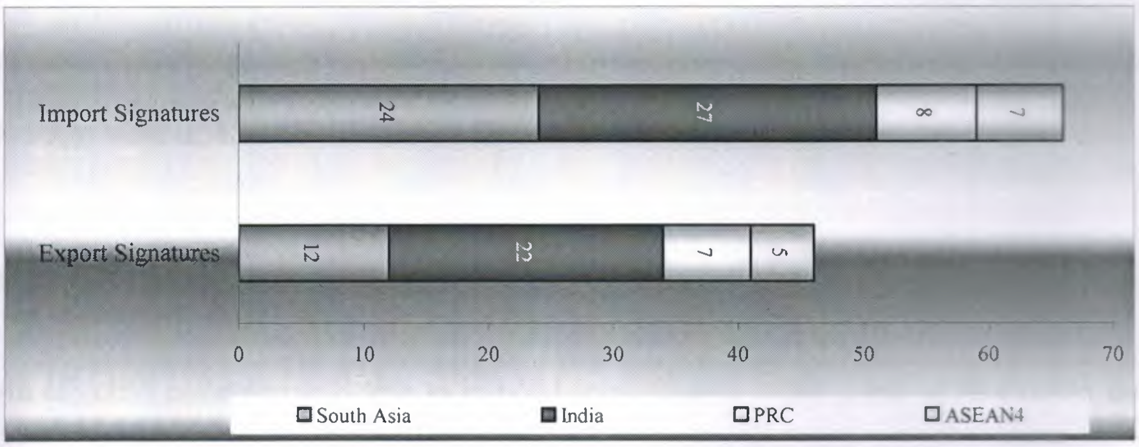


Fig 4.3.3: - Signature Required to Export and Import.
Source: *World Bank, Doing Business, 2007. Available: http//www.doingbusiness.org*

Another regulatory trade barrier is the long time required to clear goods for export and import through customs in South Asia **(Figure 4.3.4).** Slow processing is mainly due to lack of computerization in customs and the excessive number of signatures required. Many steps in customs clearance require manual intervention, including extensive physical examination of goods.

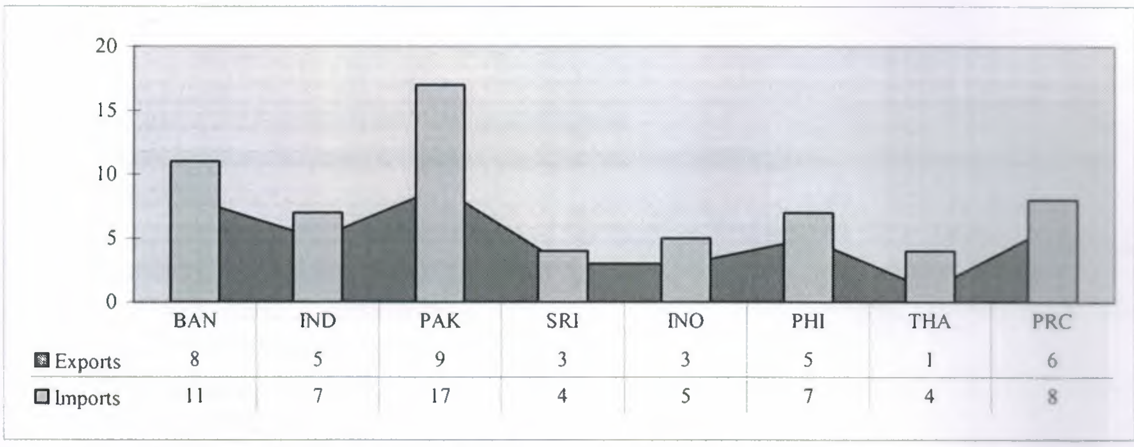


Fig 4.3.4: - Days to clear Exports and Imports through customs.
Source: *World Bank, 2006. Available: http//www.enterprisesurvey.org*

In addition to the considerable regulatory non-tariffs barriers, and despite the fact that South Asia has made significant progress in reducing tariffs, substantial tariff barriers to trade persist. The average import tariff in South Asia is about 18%, which is high compared to the average tariff in ASEAN 4, which is about 9%.

4.3.2 Government Effectiveness

An effective government is able to respond appropriately to the needs of its citizens through efficient policymaking and service delivery. Considerable scope for improvement remains in this area for the governments of South Asia. Compared to the frontrunners Malaysia and Thailand, government interventions through public spending are found to be less effective and efficient in South Asian countries **(Figure 4.3.5)**. Pakistan scores best in South Asia, equaling the PRC. Among the four South Asian (Bangladesh, India, Pakistan and Sri Lanka) countries, Sri Lanka ranks lowest.

The effectiveness of government spending is a broad concept and few quantitative indicators exist that pinpoint the specific weaknesses in South Asia.

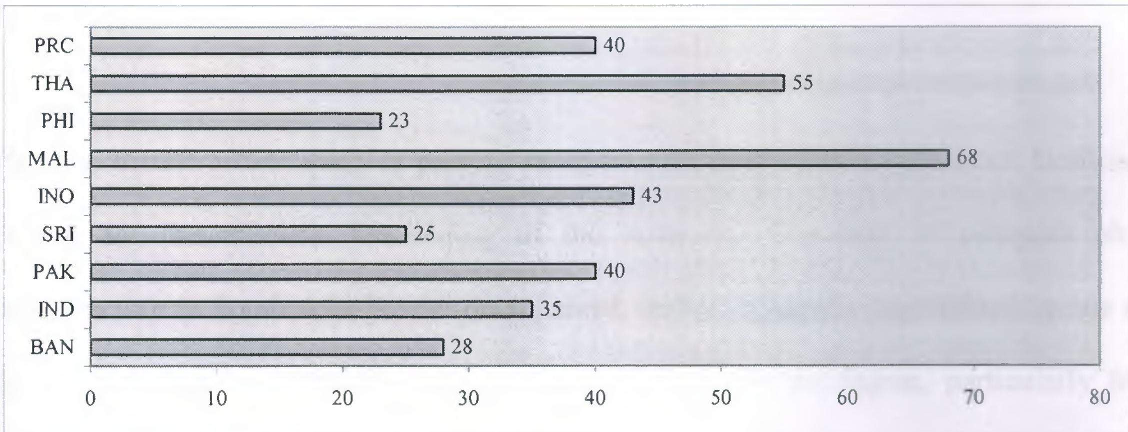


Fig 4.3.5: - Effectiveness of Government Spending.
Source: *World Economic Forum, Global Competitiveness Report 2006-2007; (ADB Staff Estimate).*

The following are some of the common problems that have been identified across South Asian countries as limiting the effectiveness of government interventions. One important factor that contributes to poor service delivery is the highly bureaucratic nature of governments in South Asia. Key problems are a lack of transparency and accountability in service delivery and a focus on processes and procedures, rather than results.

Another factor that contributes to the lack of effectiveness and efficiency of government policy in South Asia is the large number of ministries and government agencies and the lack of coordination among them, and between national and local governments. Policies are designated among the different responsible ministries and implemented in an ad-hoc manner with limited follow-up and monitoring. In addition, many departments are overstaffed while pay and benefit levels are generally inadequate. The latter results in difficulties in attracting and retaining high quality staff in key technical areas. Consequently, governments in South Asia sometimes lack the capacity and technical skills to adequately design and implement effective policies.

4.3.3 Infrastructure

Physical infrastructure, such as power, transportation, and telecommunication facilities, are critical for the efficient functioning of the economy. The lack of adequate physical infrastructure in South Asia is well documented, and is repeatedly highlighted as one of the major constraints to sustaining high economic growth in the region, particularly for the manufacturing sector. The reliability of power supply and the quality of railroads, ports, and air transport are of particular concern.

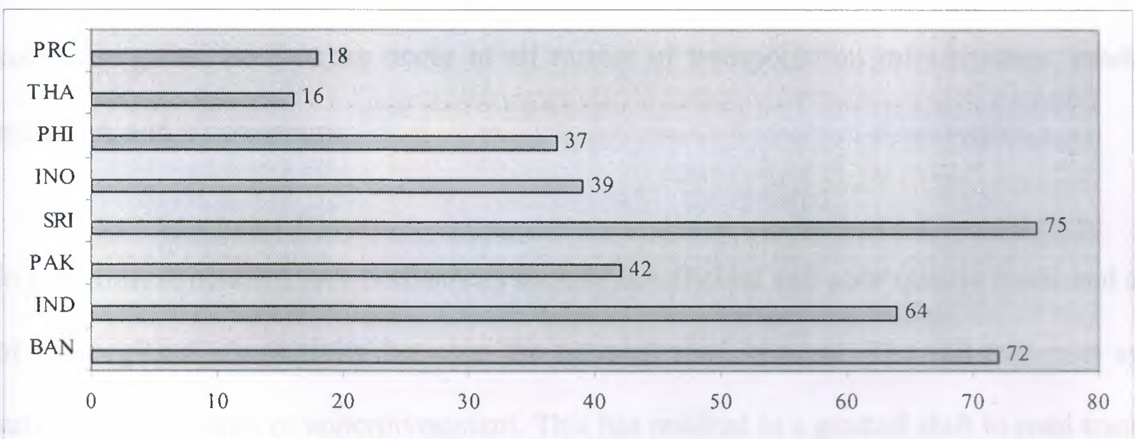


Fig 4.3.6: - Percentage of Firms that owns a Generator.
Source: *World Bank, 2006.*

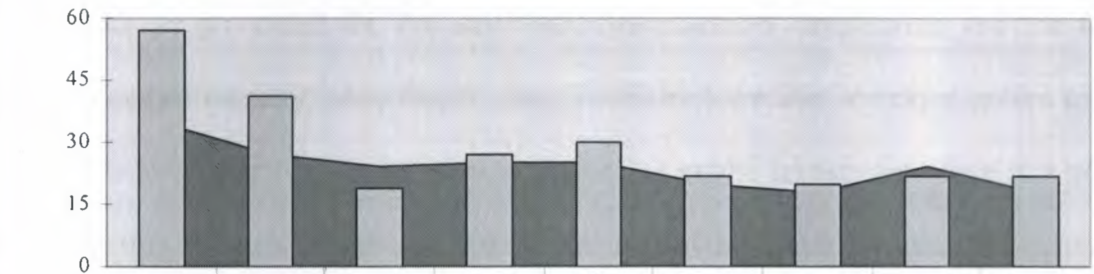
Electricity is the most critical bottleneck. According to the World Bank's Investment Climate Surveys, more than 40% of respondent firms in South Asia cited access to a reliable source of electricity as a major or very severe constraint in business. The time to obtain an electrical connection averages 55 days for South Asia compared to only 7 days in the Philippines or 10 days in the PRC. Around 63% of firms in South Asia have installed costly generators compared to only 16% in Thailand and 18% in the PRC **(Figure 4.3.6).**

On average, generators have to provide 15% of electric consumption in South Asia, a figure that only amounts to 2% in the PRC and 3% in Thailand. Within South Asia, Bangladesh experiences most problems in power supply. More than 70% of firms view electricity as a major or very severe constraint to business. Electrical outages occur 249 times a year. More than 70% of firms have generators that supply 19% of total electric consumption. Also, in India, electricity is viewed as a major or very severe constraint to business by more than 25% of firms. About 64% of firms have generators that also supply 19% of total electric consumption.

Improvements in the quality of the transport infrastructure would also result in substantial economic gains. Bottlenecks occur in all modes of transportation infrastructure: road, rail, maritime, and air transport.

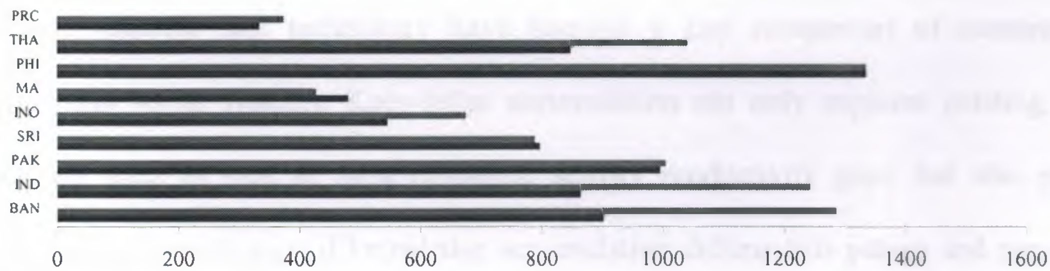
In road infrastructure major bottlenecks include insufficient and poor quality roads and a lack of intraregional connectivity between the national road systems. The rail transport system suffers from decades of underinvestment. This has resulted in a gradual shift to road transport, which currently accounts for about 70% of mainland transport in South Asia. Maritime transport is hampered by capacity constraints and inefficient operations in the main ports, and by inadequate road and rail connectivity with the hinterland. In air transport, capacity constraints in airports in terms of runways, parking, and cargo processing facilities hamper smooth operation (ADB 2006).

As a result of these multiple transport infrastructure constraints, in South Asia it takes considerably more time to export and import goods compared to countries in ASEAN 4 and the PRC **(Figure 4.3.7).** Export and import in the PRC or the better performers in ASEAN 4 takes about 20 days. Of the South Asian countries, only Pakistan scores similarly. Export-import time averages 34 days in India and 46 days in Bangladesh.



	BAN	IND	PAK	SRI	INO	MAL	PHI	THA	PRC
Export	35	27	24	25	25	20	18	24	18
Import	57	41	19	27	30	22	20	22	22

Fig 4.3.7: - Number of Days to Export and Import.
Source: *World Bank, Doing Business, 2007.*



	BAN	IND	PAK	SRI	INO	MAL	PHI	THA	PRC
Import	1287	1244	1005	789	675	428	1336	1042	375
Export	902	864	996	797	546	481	1336	848	335

Fig 4.3.8: - Cost to Export and Import ($ per container).
Source: *World Bank, Doing Business, 2007.*

Similarly, the cost of exporting and importing goods is higher in South Asian countries than in other regions. While it costs less than $400 in the PRC and less than $500 in Malaysia to bring a standard 20-foot container across the border, prices in South Asia range from about $800 in Sri Lanka to up to $1,100 in Bangladesh **(Figure 4.3.8).**

However, progress is being made in the infrastructure sector in South Asia. As a result of reforms in telecommunication policies, South Asia has one of the fastest growing mobile phone markets in the world. India has initiated policy reforms in roads, ports, airports, and urban sectors which have attracted about $8 billion in public-private partnerships. Pakistan has successfully privatized the Pakistan Telecommunication Corporation and the Karachi Electric Supply Company. Most South Asian countries have also increased public spending on infrastructure. However, in addition to increasing public investment, there is a need for better targeting of such investment and further improving sector policies and institutional environment.

4.4 Technology And Poverty Reduction

Knowledge, science and technology have become a key component of contemporary economic and social systems. Knowledge accumulation not only explains existing across country and inter as well as intra economic activity productivity gaps, but also predicts increase in productivity gaps if knowledge accumulation differentials persist and perpetuate. Thus knowledge generation and accumulation process have severe implications for the future status of the national economic system in the fast changing global economy.

In an ever-changing global market, technological improvement has to be an ongoing process in order to maintain competitive strength. There is a need for constantly monitoring technological developments that are taking place around the world, acquiring the best technologies and adapting them to local conditions. A comprehensive technology development strategy should be put in place for this purpose. There is a need for infusion of dynamism in the working of the technology related institutions. This will require initiative and collaboration on the part of the trade bodies supported by appropriate matching grant facilities. At the same time, the government should provide policy support to stimulate technology transfer and diffusion to local industries from foreign investors and actively participate in regional and global initiatives in support of transfer of technology favouring the developing countries.

Policy attention to technology has not been robust and in pace with rapidly transforming social and economic demands. The same is also true of civil society discourses. A reluctant mind-set which tends to equate technological progress with labour-displacement and a bookish approach which underemphasizes the importance of developing application areas appear to have been the major hindrances to upscaling technology as a policy focus. Nevertheless, there have been initiatives which have demonstrated the importance of technology in addressing the needs of rapid poverty reduction and MDG attainment: ORS in diarrhea prevention, mobile in enhancing connectivity, pedal thresher and portable husking to deliver improved post-harvest processing at the farmer's door-step to name a few.

Overcoming reluctant mind-sets, bringing greater attention to bear on application areas and, choosing technologies with low thresholds for entry and high self-dissemination potential are key to upscaling technology as a policy focus. While there are many areas which merit focus, there are two priority fields where effective policy attention on technology is urgently necessary. The first of these is agricultural technology and technology for related fields such as fisheries. The other is ICT.

Though Bangladesh has an extensive public sector agricultural technology system, it was essentially built for an era wherein food security, especially rice, was the national priority. The system is ill-prepared for meeting the new challenges of market-driven commercial agriculture including technologies for environment-friendly input-use and value addition through improved post-harvest management systems and processing. A significantly upgraded, well-resourced and responsive agriculture technology system is a priority for meeting the current and future technology needs of small and marginal farmers and of the growing commercial agriculture. The technological infrastructure for the growing fishery sector, in particular, the rapidly growing and highly potential aquaculture sub-sector, is in even greater state of unpreparedness. A comprehensive technological policy and research and extension infrastructure to service both the sustainable needs of the sector and the needs of various groups of stakeholders including community-managed floodplains will be a critical challenge to be addressed.

ICT represents a case of unrealized potential in Bangladesh. The relevance of ICT to the goal of accelerated poverty reduction is threefold: firstly, ICT as an employment frontier, secondly, ICT as a facilitator for strengthening the role of the poor in the market, and lastly, ICT as a bridge reducing the distance between the citizenry including the poor and the state. While the multiple areas of relevance are well-understood, reaping the potential has stagnated on three critical counts: incomplete connectivity, weak development of application areas, for example in integrating the poor to the market, in hardware troubleshooting, in e-governance etc., and finally, in the pronounced lack of quality and system perspective in ICT training. Major thrusts are necessary to overcome the deficiencies in all three areas. A related challenge is the undertaking of a comprehensive initiative to enable rapid acquisition of functional proficiency in English language.

4.4.1 Source Of Growth

Economist Mokyr (1990), distinguishes the following three main sources of economic growth:

Increase in the size of the market – Market size can increase for many reasons; new discoveries, as when Europe expanded in the 16^{th} and 17^{th} centuries; increase in population, such as occurred in the 19^{th} century; reduction in transportation costs, which have been going on for the last two centuries; and reduction in trade barriers, such as have been accomplished by trade liberalization policies in the last half of this century. All these allow the exploitation of scale economies previously unexploited. Also, a growing economy encourages innovation by reducing risk because it is easier to finance new technologies and sell new things in expanding rather than in static or contracting market.

Capital investment—In standard economic analysis, pure investment in physical and human capital is distinct from technological change.

Technical change—In the long term, changes in product and process technologies are potent sources of economic growth.

4.2.2 Technological Growth And Poverty Reduction

Technological advance has been instrumental to economic growth and by implication poverty reduction. Steady improvement in per capita income, with unchanged income distribution gradually lifts larger proportion of population out of poverty. However, the impact of growth on poverty depends, as mentioned earlier, on the initial income distribution as well as on whether income inequality improves or deteriorates with growth. The sectoral composition of growth is also important for poverty reduction. While agricultural growth is strongly and unequivocally associated with poverty reduction, the effect of manufacturing growth on poverty reduction depends on initial conditions like educational attainment, infrastructure, urbanization, and agricultural productivity.

There are three sets of technological choices for the government for poverty reduction. Firstly, the government (and the international donor community) has to decide how much support it should provide to science and technology development for poverty reduction and how the given support should be allocated.

Secondly, the appropriate legal and policy environment that needs to be provided to the private sector to ensure poverty relevant research and at the same time ensure that the poor can access the fruits of the research in time.

Thirdly, how does the broad policy framework affect the rate and direction of technology development? In this context, it is important to remember that while in certain cases the poor themselves decide the type of technology to be adopted, e.g., choice of modern seeds by small farmers, in other cases they are victims of technology choice made by others, e.g., factory owners choosing capital intensive technology that reduces labor demand. To provide a level playing field, the government should ensure that factor prices are not biased against natural factor endowment, i.e., capital should not be made cheaper relatively to labor. This holds true especially for imported technology for manufacturing sector.

In the medium term focus will be on several key areas to promote technological changes. Firstly, the country depends in large measure on importation of technology and, in some cases, its adaptation to local conditions. Here the role of the government will be to facilitate technology transfer through import of capital equipment and intermediates and foreign direct investment.

Secondly, for poor people the accessibility to improved technology is important. There is in fact a virtuous circle whereby advances in agricultural technology lead to improvements in health, education, labor productivity and human capabilities to use and develop new technology. The government will enhance access through increased access to credit.

Thirdly, institutions play an important role in adoption of new technology by the poor, e.g., public extension services in case of HYV technology and Grameen Bank in case of mobile phone for rural women. The government will provide support or facilitate the development of proper institutions to enhance use of technology by poor people.

Fourthly, benefit from general-purpose technology like ICT (in contrast with sector specific technology like bio-technology) depends on level of literacy both basic and computer type.

CHAPTER FIVE

LESSON UNLEARNED: POVERTY ALLEVIATION IN MALAYSIA

Malaysia managed to drastically reduce the incidence of poverty by achieving rapid economic growth. As Malaysia is a multiracial country so it's essential to draw attention into the following factors to understand the racial harmony in the development context. What transpired in Malaysia during the 1970–2000 period was complex and challenging, requiring masterful management by the government of the varied demands of a heterogeneous population.

5.1 HISTORY

Malaysia's history has strongly influenced politics and government policies, which shaped the context and conditions faced by the rural poor. During British colonial rule, much of the economy was controlled by British capital invested in rubber plantations, tin mining, and timber production, most of the products of which were exported. Most of the labors in these activities were migrants from China or India who came to Malaya in the 19th and early 20th centuries. The rest of the economy consisted of subsistence farming and fishing carried out by Malays, who represented the great majority of the rural population at that time. In the urban areas, small processing industries and services were largely controlled by Chinese.

Malaysia was thus a multiracial and multiethnic society at independence, with more than half of the population being Malay, 37% Chinese, and 12% Indian (ADB, 2004). Most of the Malays lived in rural areas, as did tribal groups, who were the poorest in the country. The Chinese concentrated in urban areas and had substantially higher incomes. The Indians also concentrated in the urban areas, running small businesses or working as unskilled wage laborers.

5.2 Politics And Government Policies

The ethnic conflict that took place in 1969 had a dramatic impact on the design and implementation of Government policies in the last 3 decades. One of the most important results was a new economic policy that defined social unity as the sole goal of national development policies. With a two-pronged strategy to achieve national unity, the Government was strongly committed to poverty eradication and righting economic imbalances among racial groups. In this political context, a set of Government policies and projects were designed to reduce poverty and improve income distribution, including the provision of free or highly subsidized education and health services to all citizens and highly subsidized housing for low-income families together with supplies of water, electricity, and other basic services. Other programs distributed government-owned land to the landless poor and provided long-term, subsidized financial support for developing it. Price controls on rice and other essential foodstuffs were implemented, stabilizing prices for both rice farmers and consumers, and so dramatically reducing the potential distress price fluctuations could cause on poor and near-poor families. Finally, policies were implemented to reduce income inequalities between *Bumiputeras* (Malays) and other ethnicities, including preferential treatment for *Bumiputeras* in public sector employment, efforts to increased *Bumiputeras'* presence in private businesses, and greater access for them to education and training through fellowships.

Meanwhile, the country has been governed since the 1970s by a political coalition with strong leadership that provided continuity to the application of national strategies. Policies were implemented through national plans that ensured an active and direct role in the economy for the Government. This stable political context created a favorable environment that encouraged private investment and supported government priorities in terms of poverty reduction and equitable income distribution.

5.3 Policies For National Development

Malaysia formulated a range of policies and plans to guide the management of national development during 1970–2000. They consisted of: core national policies; long-term, medium-term, annual, and special development plans; and sectoral and industry-specific master plans.

The core policies were the most important; their main components formed the benchmark for all other policies and plans. They consisted of the New Economic Policy (NEP), 1970–1990, and the National Development Policy (NDP), 1991–2000. Complementing these policies was Vision 2020, which was formulated in 1991 and projected a vision of Malaysia three decades hence. The two core national policies were based on a philosophy of growth with equitable distribution. The policies saw national unity as the goal of development and the two-pronged strategy to achieve it (1) the eradication of poverty and (2) the restructuring of society. This was to be conducted within the context of rapid and continuous economic growth.

There was, in addition, the National Economic Recovery Plan, 1998; this was a special document to deal with an abnormal economic condition the country faced because of the East sian financial crisis. Among other plans were Industrial Master Plans, National Agriculture ɔlicies, and the Privatisation Master Plan.

ne implementation, monitoring, and evaluation of the policies and plans were carried out rough an institutional framework that was developed to suit Malaysia's special needs. Apart om strengthening the organizational structure and work procedures of ministries, steps were so focused on limiting potential conflicts among various groups actively involved in the evelopment process.

4 Economic Growth

conomic growth in Malaysia was led by the private sector. However, the Government played key role in fostering an attractive environment for private investment. First, the sole goal of tional unity and appropriate macroeconomic management have helped the country perience long-term stability over the past 3–4 decades, compared with some other Asian untries that suffered periodic turmoil. Political stability, social harmony, and continuity in overnment policies played a critical role in attracting foreign direct investment to Malaysia.

econd, the Government invested heavily in highways, electric power, telecommunications, d other basic infrastructure, which reduced transportation and energy costs and encouraged reign companies to invest in the country. Third, with the explicit goal of attracting foreign rect investment, the Government created free trade zones and offered tax breaks for foreign vestors.

Finally, the Government ensured all citizens' easy access to education, which was provided free or highly subsidized. For the hardcore poor, an education allowance was provided to the parents to cover school-related expanses such as transportation. Many foreign companies were attracted by the low cost of educated labor in Malaysia, considering their good skills and training potential.

As a result, Malaysia experienced outstanding economic growth that reached an annual average of 6.7% during 1971–1990 and 7.0% during 1991–2000. The manufacturing sector led, dominated by textile processing in the 1970s and 1980s, and by electronics and high-tech industries since the 1990s (ABD, Evaluation Study, 2006). The boom of these industries provoked major changes in the labor market, which went from high unemployment to full employment and, more recently, labor shortages, especially in Peninsular Malaysia.

However, unemployment remained a problem in some areas, for example Sabah, where access to off-farm employment was not readily available, primarily because industries grew relatively slowly in Sabah, and migrating from Sabah to Peninsular Malaysia was expensive.

Rapid economic growth contributed significantly to poverty reduction in Malaysia. First, growth brought substantial tax revenues, with which the Government implemented a wide range of programs for poverty reduction. Second, private investment in manufacturing and services created employment for both urban and rural residents, and the resulting labor shortage fueled a slow but steady rise in wages. Industrial growth concentrated on the west side of Peninsular Malaysia, attracting Malaysian migrants from other states.

5.5 Equitable Growth And Economic Development

In Malaysia's case, the issue of whether the policy of equitable growth would affect economic development or growth negatively was not paramount. The goal of the NEP and NDP was not maximum economic growth, but national unity.

However, the policy of equitable growth, the cornerstone of Malaysia's socio-economic development, could be questioned on at least three grounds: that it would slow down growth; that it would divert scarce resources from more efficient activities; and that it would have a crowding-out effect on private enterprise. The Malaysian experience has shown these concerns to be misdirected.

The policy probably had some negative effects on the growth rate, opportunity costs, and participation of non-Bumiputera in business. However, these effects were negligible and were more than outweighed by the achievements of the poverty reduction and restructuring programs and, more importantly, by the virtual absence of racial strife in Malaysia since 1969.

Many factors were associated with the economic growth of Malaysia. Among the demand-side factors, private expenditure contributed significantly to growth in general. In years of slow growth and recession, however, this role was taken over by public expenditure. International trade was another driving force for growth. Among the supply-side factors, the most important contributor to growth was the transformation of the structure of the economy. Among the noneconomic factors was the peace and security Malaysia enjoyed.

5.6 Strategies For Poverty Reduction

Malaysia experienced rapid and almost continuous year-to-year economic growth during the NEP and NDP periods and achieved greater income equality by the end of each period. At the same time, there was a large reduction in the incidence of poverty and marked progress in meeting targets for the restructuring of society.

The result of development efforts was marked increases in real national and per capita income, accompanied by declining income inequality. Related to these efforts was a considerable reduction in the incidence of poverty, while the *Malay or Bumiputera* racial group made notable progress in the modern sectors of the economy.

Achievements in poverty reduction were driven by a comprehensive program that incorporated eight critical strategies: (1) agreeing on the definition and measurement of poverty; (2) increasing productivity and diversifying sources of income; (3) targeting the hardcore poor through a special program focused on their needs and delivering other appropriate assistance to improve their situations; (4) involving private sector and nongovernmental organizations; (5) improving the quality of life of the poor by providing infrastructural and social amenities, such as piped water, electricity, roads, medical and health services, and schools for the rural population; (6) providing welfare assistance directed at the poor who were aged or disabled and therefore not employable; (7) maintaining stable prices, a strategy that involved government intervention in the markets of a small number of food and other essential items; and (8) reducing or eliminating income tax rates for the poor.

The poverty program, combined with Malaysia's rapid economic growth, helped to reduce poverty and improve the quality of life of all Malaysians. While the data (collected by ADB from the Two Township Projects, which were funded by ADB, for developing the state of Terengganu and the first project was implemented from 1979 to 1984 and the second from 1983 to 1990, by the Trengganu Tengah Development Authority and Sabah Land Project) do not show the relative contributions of the targeted programs and economic growth, there is reason to believe that a major portion of the increase in the household income of the poor accrued from nonagricultural economic activities of poor households.

5.7 Some Lessons From The Malaysian Development Experience

First: Each country must formulate its core development philosophy, policies, and plans suited to its particular circumstances and needs. It must also persevere while remaining pragmatic and flexible enough to modify plans so they remain relevant and suited to changing circumstances.

Second: In a multiracial or diverse country, there is a real need for peaceful coexistence among racial or other groups and close cooperation among ethnically based political parties in order to have political stability and socio-economic development.

Third: If a country is to achieve sustained and rapid economic development, it cannot accept racial or any inter-group strife and violence, especially on a prolonged basis. Any political solution to inter-group conflicts, through some formula of power- and wealth sharing, has to be viable and enduring.

Fourth: There must be sustained and rapid economic growth to create new jobs, business opportunities, higher incomes, and increased wealth. This requires capable and effective management of the macroeconomy by the public sector and of industries by the private sector, as well as close rapport between the two. Continuous growth is also facilitated by an export-oriented and resilient economy.

Fifth: In a multiracial or heterogeneous nation, with wide and entrenched disparities of economic opportunities and incomes, government intervention in the market place and affirmative-action-type programs to ensure a fairer distribution of opportunities and incomes among all racial and social groups may be necessary. The avoidance or reluctance to undertake such initiatives may lead to social unrest and violence.

Sixth: Sustained economic growth requires strong governments and leaders committed to the national, not personal, interests over a sustained period of time.

Seventh: The eradication of poverty requires two broad types of strategies: expansion of the economy and government-run affirmative action programs targeted to the poor.

CHAPTER SIX

COMPARATIVE ANALYSIS

6.1 Poverty Discourse In Bangladesh

Although poverty of this region was a subject of interest during the British colonial period (Jack, 1916;Siddqui, 1982), there was only one research on this issue during the Pakistan period 1947–71, (Siddiqui, 1982). Since its independence in 1971, Bangladesh has made some important strides towards growth and poverty alleviation2. However, given the relatively vast size of the population and existing levels of investment and growth, the current pace of economic and social progress does not leave much room for complacency. Nearly two fifths of the populations still live below the poverty threshold, and its per capita income is still among the lowest in the world. The development goals and "ends", encapsulated in the Five Year Development plans, remain a far cry. This has called into question whether the instruments and policy "means", currently in practice, are truly adequate in achieving those development goals (Muqtada, 2003).

Poverty began to attract the attention of researchers after the famine of 1974 and the decade saw a number of studies mainly devoted to counting up the poor. Only Alamgir (1978) and Griffin (1977) tried to provide macro level analysis of the poverty process in the country. Alamgir had adumbrated a Marxist analysis of poverty. Griffin sought to understand the problem in terms of a high level of inequality and the dominance of the rich on the state machinery. Two ethnographic studies, however, were significant in exploring rural poverty. In Jhagrapur, Arens and Beurden (1977) provided a graphic account of the livelihoods of the poor and the process of exploitation in a village of Kushtia with special focus on women from a Marxist perspective. In 1977 Siddiqui (1982) mounted a meticulous study of poverty in a village of Narail again from a Marxist perspective, which tried to link micro level poverty with macro societal processes. Hartman and Boyce (1979; 1983) undertook an ethnographic study of a Rangpur village and underscored patron-clientelism and parochialism as the key instrument that kept the poor dependent, fearful and voiceless.

A particularly speculative but influential study on poverty of 1980s was undertaken by Maloney (1986) who sought to explore deep behavioral and cultural contours in Bangladesh that led to the perpetuation of poverty in the country. Central to his analysis is the fact that the 'overall socio-economic texture' of Bangladesh society was traditional. A particular drawback of this traditional society was his notion of atomistic individualism characteristic of the Gangetic delta that impedes crystallization of collective efforts and durable organizations and thus prevents modernization from taking place. The negative behavioral traits of Bangladeshis that he found as obstacles to development include: reliance on patronage and indulgence, personalization of authority, which causes weak institutions and policies, authoritarian administration, opportunistic individualism, low commitment to abstract ideologies, weak socialization that leads to low self-discipline and a lack of trust in modern institutions. The political institutions were not able to lift the country out of poverty. Politics was a mere contest for power without commitment to ideologies. Maloney did not rule out the possibility for development, but he clearly pointed out that the task of poverty alleviation was not easy either given the enormous burden of a traditional social structure embedded in an inhospitable ecological niche. Maloney did have some disclaimers, but there is no doubt that his analysis is highly dated and represented a crude form of orientalism.

More detailed studies of poverty have become available from 1990s on ward. While there are five key data sources for understanding poverty in the country, the most important is the household expenditure survey (HES), which started in 1973-74, and so far 13 rounds of these surveys have been conducted (BBS, 2002). But HES data have been generally reliable from 1990s (Rahman, 2002). The second major data source is The Analysis of Poverty Trends (APT) undertaken by Bangladesh Institute of Development Studies and later on Power and Participation Research Centre (PPRC) since 1989. Under this programme four comprehensive surveys of poverty in 62 villages have been conducted in an attempt to capture the multi-dimensional nature deprivation of rural Bangladesh. The unique feature of this study is the use of panel data (Rahman, 2002). A third source is the information on the nutritional status of children collected by Helen Keller International from 1990. A fourth source is the nutritional data provided irregularly by the Institute of Nutrition and Food Sciences (Rahman, 2002). A fifth source is the survey of 32 villages conducted by IRRI in 1987-88 and 2000. Apart from these a number of specific surveys and qualitative studies have been carried out with a view to understanding poverty in specific circumstances and greater depth.

Although most of these studies have been preoccupied with counting the poor, Rahman and Sen (Rahman, 1996; Sen, 1996; Sen and Rahman, 1999;Sen, 2003) have particularly moved towards an analysis of the dynamics of poverty – the process through which poverty is created and the social mechanism that generates upward mobility out of poverty and downward mobility into it.

During the 1980s, and more rigorously during the early 1990s, Bangladesh adopted fairly wide-ranging macroeconomic policy reforms, ostensibly with the objectives of attaining macroeconomic stability, economic liberalization and greater integration of its economy to global trade and investment.

According to Yunus, 2006- Globalization can help us overcome poverty quickly, if we can prepare poor to participate in the globalized market. Most important thing is the participation. We must bring IT to the poor to participate in and take advantage of globalization. If we leave our poor at the mercy of global forces without preparing them to ride waves of globalization……Actions to be taken to reduce poverty by half by 2015 are well known. Just pick the strategic ones and go for them with full force.

The policy reforms in the 1980s included mainly the withdrawal of food and agricultural subsidies, privatization of SOEs (State Owned Enterprises), financial liberalization and withdrawal of quantitative import restrictions.

Bangladesh lunched deep and wide-ranging trade reforms in the early 1990s which included substantial reduction and rationalization of tariffs (reducing import duties generally to much lower level), removal of quantitative restriction of import, move from multiple to a unified exchange rate, and from fixed to a flexible exchange rate system (floating since May 2003), the currency convertible on current account and removing virtually all control on the movement of foreign private capital. Besides, fiscal reforms were undertaken including the introduction of VAT.

During the year 2003-06, in order to promote exports, Bangladesh introduced a wide range export policy reform which includes- Bangladeshi exporters will get 50% exemption of income tax, exemption in insurance premium, bond facilities for export oriented industries, duty free import of capital machineries for export-oriented industries and these industries will get the advantage of importing 10% spare parts of their capital machineries without duty in every two years, providing alternative facilities to export-oriented local textiles and RMG other than duty bond or duty-draw-back scheme. Besides, cash incentives are also provided by Government for export of different commodities such as- frozen shrimp and other fish, jute product, leather product, bicycle, crushed bone etc. All these reforms had been initiated to attract more capital stock, to achieve a sustainable economic growth and finally gradually to achieve the Millennium Development Goals (MGDs).

6.2 Comparative Macroeconomic Analysis In Between Bangladesh, Malaysia And SA.

The correlation in between rapid economic growth and poverty reduction is an inevitable matter to endorse with special concern for the country like Bangladesh. Economic growth is occurring in most of the world. This refers to measures of national income, expenditure, output generated within a country or by citizens of the country wherever they might be. Similarly an increase in per capita income is occurring in most of the nations of the World because national income is growing faster than national populations. Important related things, which can buy by money, are also improving, such as health care, education levels and overall decreasing the impoverishment.

In case of growth pact no country would be able to ride into the development ladder without achieving stunt success on some macroeconomic fundamentals. During the last five years Bangladesh has achieved impressive improvement on some basic macroeconomic variables like lower inflation, smaller current account deficits, reduce fiscal deficits, high GDP growth etc which have direct impact on poverty reduction. Without rapid and steady economic growth, there is a great deal of suspicion for rapid poverty reduction in Bangladesh is impossible. From the following discussion the fact will be more clear and effectual to understand.

The Malaysian economic growth has accelerated since achieving Independence in 1957. During the 1990's, its real GDP growth exceeded 8 percent unit onset of the economic crisis in 1998 (-7.4%). As a result of the measures taken to combat the ill-effect of the crisis, its economy subsequently shows signs of recovery commencing the third quarter of 1999 and by 2000, achieving a real GDP growth of 8.5%.

For much of 1970s, macroeconomic policy was designed in Bangladesh primarily with a view to reviving a war-ravaged economy following the War of Liberation in 1971 with an overall framework of extensive state control. A major changes of direction occurred in the early 1980s, with the adoption of market-oriented liberalizing policy reforms, which were undertaken along the guidelines of the World Bank and the IMF and implemented under fiscal rigid aid conditionality, were aimed at reducing the fiscal and external deficits to a sustainable level.

For the best understanding of macroeconomic management in Bangladesh I tried to make a comparative illustration with the development of Malaysian economy. The trends of various macroeconomic indicators for both countries were shown in **Table 6.2.1.** It can be seen from this Table that Bangladesh sustained impressive economic performance from the down of this century, registering high growth of 5.8% which is higher than the Malaysian economic growth of 5.3% and also higher than the South Asian economic growth of 4.8 % on average in 2005. During the period from 2000 to 2005, the contribution of industry sector in Bangladesh

Table 6.2.1: - Key Macroeconomic Indicators of Bangladesh, Malaysia and South Asia.

		1988	'90	'95	2000	'01	'02	'03	'04	'05
Growth of output (annual change, %)										
GDP	BAN				5.9	5.3	4.4	53	6.3	5.8
	MAL				8.9	0.3	4.4	5.4	7.1	5.3
	SA				5.9	3.8	4.2	6.1	6.8	4.8
Agriculture	BAN				7.4	3.1	0.0	3.1	4.1	0.3
	MAL				6.1	-0.6	2.8	5.6	5.0	2.1
	SA				3.5	2.7	2.6	3.7	2.3	3.2
Industry	BAN				6.2	7.5	6.5	7.3	7.6	8.5
	MAL				13.6	-3.8	4.3	7.1	7.9	3.9
	SA				5.2	5.2	5.7	5.8	7.8	6.3
Services	BAN				5.2	5.2	5.5	5.2	6.5	5.9
	MAL				6.0	6.2	6.5	4.5	6.7	6.6
	SA				7.6	5.3	4.5	7.2	7.7	4.6
Growth of Consumption and investment (annual change,%)										
Private Consumption	BAN	3.9	7.6	3.5		4.7	4.9	3.5	3.2	4.4
	MAL	11.8	11.9	11.7		2.4	4.4	6.6	10.5	9.2
Government Consumption	BAN	0.8	0.3	2.3		4.5	19.2	13.2	10.7	9.4
	MAL	7.4	5.9	6.1		17.3	10.4	11.5	6.0	5.9
Gross Domestic Capital Formation	BAN	6.1	6.3	9.1		5.8	8.2	7.9	9.2	9.2
	MAL	25.9	21.4	20.3		-9.5	7.6	-4.1	13.8	-5.5
Consumer Price Index (annual change,%)	BAN	6.3	3.9	8.9		1.9	2.8	4.4	5.8	6.5
	MAL	2.6	3.1	4.0		1.4	1.8	1.2	1.4	3.1
Money Supply (M2) (annual change, %)	BAN	18.3	16.9	16.0		16.6	13.1	15.6	13.8	16.8
	MAL	7.2	12.8	24.0		2.2	5.8	11.1	25.4	15.4
Government Finance (% of GDP)										
Total Revenue	BAN	12.8	12.0	15.2		15.3	15.6	16.1	16.5	15.8
	MAL	23.8	24.8	22.9		23.8	23.1	23.4	22.1	21.5
Total Expenditure	BAN	11.0	12.4	13.7		14.5	13.2	14.0	13.6	13.8
	MAL	27.3	27.7	22.1		29.3	28.7	28.7	26.4	25.3
Overall Budgetary Surplus/deficit	BAN	1.8	-0.4	1.5		0.8	2.4	2.1	3.0	2.0
	MAL	-3.6	-2.9	0.8		-5.5	-5.6	-5.3	-4.3	-3.8
Inflation (percent)	BAN			8.9	4.1	1.0	1.2	4.4	5.8	6.5
	MAL			3.4	1.5	1.4	1.8	1.2	1.4	3.1
	SA			8.9	3.5	4.3	3.5			
Balance of Payments (% of GDP)										
Exports	BAN	4.7	5.1	9.2		14.1	12.9	12.6	13.4	14.6
	MAL	59.1	65.0	80.7		100.0	99.1	100.7	107.0	108.6
Imports	BAN	- 10.7	- 11.6	- 15.4		-18.6	- 16.3	-16.8	-17.6	-19.8
	MAL	- 43.4	- 59.1	- 80.7		-79.1	- 79.2	-76.0	-83.8	-83.0
Current account balance	BAN	-0.1	-1.5	-1.8		-2.4	0.3	0.3	0.3	-0.6
	MAL	5.1	-2.1	-9.8		8.3	8.4	12.9	12.6	15.2
Overall Balance	BAN	1.7	0.5	1.2		-0.6	0.9	1.6	0.3	0.5
	MAL	-1.2	4.5	-1.9		1.1	3.9	9.9	18.5	2.6

Sources: *Key Indicators of Developing Asian and Pacific Countries, 2003 (http://www.adb.org).*
World Development Indicators, 2006 (http://www.worldbank.org).
UNDP Internet Website.

economy was on average more than 8% and it was surprisingly stunting in 2005 with 8.5% growth where as Malaysian economy gained by approximately 6.5% on average and separately 3.9% in 2005. Conversely, the pace of industrial growth slowed in Nepal and Maldives, which affected the whole South Asian economy to down at 6.3% in 2005.

The service sector remained an important driver for Malaysian (6.6% in 2005), Bangladesh's (5.9% in 2005) and South Asian (4.9% in 2005) economy while the agriculture grew by only 2.1% in Malaysia, 0.3% in Bangladesh and 3.2% in South Asia. Mainly the rural poor are affected for this low agricultural growth in Bangladesh.

In terms of expenditure, annual growth of investment in Bangladesh (9.2%) surpassed that of consumption (on average 6.8%) for the year 2005. the share of consumption has been declining continuously in where both public and private consumptions have contributed to this declining trend.

The overall budgetary deficit was 2% in FY05. However, it is lower than the previous year, mainly due to underperformance of development spending. In FY05 total expenditure, which was financed by government, was 13.8% where as the collected revenue was 5.8% only. In Malaysia the significant reduction in the fiscal deficit was –3.8% of GDP during 2005, which was marginally less than in 2004 of –4.3% of GDP. This is an extraordinary performance because during 2005 capital formation was –5.5%, which is far less than 13.8% -- the capital formation of 2004. The annual change of consumer price index comparatively very high in Bangladesh that is 6.5% than Malaysia of 3.1%.

Inflation in Malaysia was always within control and slowed to 3.1% in 2005 which is higher than the previous year (1.4%) because of accommodative money supply policy. Bangladesh had experienced a higher rate of inflation than Malaysia which is 6.5% in 2005.The cause of higher inflation were due to continual rapid growth in money supply, higher international money supply and depreciation of Bangladeshi taka. Inflation in South Asia declined in 2005, after rising sharply during the previous two years (Figure 1.4). Average inflation in South Asia slowed to 5.2% in 2005, which was largely due to a two-percentage point decline in inflation in India. Inflation in Afghanistan and Maldives also slowed while the other countries posted higher inflation rates. Pakistan's and Sri Lanka's price levels increased most significantly, at 9.3% and 10.6% respectively. Overall, South Asia had a higher rate of inflation than did East Asia or Asia as a whole. Inflation in the region can be attributed to two factors in recent years: high world oil prices and the rapid rate of economic expansion driven by strong domestic demand.

Most South Asian countries followed accommodative monetary policies, with money supply expanding rapidly in 2005 following the significant slowdown during the previous year (Figure 1.5). This may have occurred, as monetary authorities perceived that inflationary pressures had abated, creating an environment favorable for monetary expansion geared toward economic growth.

In case of external sector Malaysian current account balance accounted at 15.2% and for Bangladesh the annual growth was –0.6% in 2005. Malaysian balance of payment account enriched by 108.6% of GDP from export and for this reason Malaysian overall trade balance was 5 times higher than Bangladesh.

Data in the **Table 6.2.2** are showing strong export growth of 22.1% was recorded for Bangladesh in 2004 which is not unprecedented but conversely at the same time imports increased by 25.9%. However, due to strong export oriented high tech Malaysian economy experienced 8.5% imports growth which is very low from the previous year.

Table 6.2.2: - Growth Rates of Merchandise Exports and Imports (percent).

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Exports, f.o.b.											
BAN	11.4	34.0	5.5	19.5	23.1	2.2	19.5	30.1	-4.6	7.5	22.1
MAL	27.0	20.2	6.5	12.1	29.7	12.2	16.1	-10.4	6.9	11.3	20.8
Imports, c.i.f.											
BAN	39.9	20.7	7.9	11.9	12.6	9.5	19.6	-2.6	14.0	14.9	25.9
MAL	24.6	1.5	12.0	3.3	8.9	25.3	-10.0	8.2	4.4	26.4	8.5

Source: W.B. World Development Indicators 2005.

Strong export growth of 24.3% was recorded in 2005 (Table 1.2). Export growth was particularly strong in India at 27.5%, followed by Bhutan (18.0%) and Pakistan (16.8%). Imports also continued to grow rapidly. After posting exceptionally high growth of 40.4% in 2004, imports increased by another 30.3% in 2005. The rising price of oil was an important factor in the high growth rate of imports. In both India and Pakistan imports grew rapidly, at 31.6% and 39.6% respectively. In Bhutan, the purchase of two aircrafts boosted imports by 67.6%.

With imports growing faster than exports, trade deficits are common to all countries within the region. As a whole, South Asia maintains an overall trade deficit against the rest of the world. While total exports to countries outside the region increased by over $26 billion during the year, imports from these countries increased by almost double this amount, resulting in an overall trade deficit in excess of $63 billion in 2005 (Fig-1.6). Sharp increase in the price of oil and strong domestic demand contributed to the increasing deficit. Trade in services continues to gain significance in South Asia.

From **Table 6.2.3** one can get information about the income of citizen of Malaysia and South Asia as well. Per capita income is an important variable demanding considersion in the development agenda because it is creased in most of the nations of the World and the reason acting behind of it is national incomes are growing faster than national population. The data in the Table showing continual increase of per capita Gross National Income (GNI) in Bangladesh (360 US dollar, 2001) which is far behind from Malaysian and lowest within the region except Nepal (250 US dollar, 2001). The effect of this income gap is also reflected on poverty indices of Bangladesh. The **Table 6.2.4** in which 0.2% Malaysian inhabitants are living below $1 per day and where as 30.3% Bangladeshi are struggling to survive with $1 per day.

Table 6.3.3: - Per Capita GNI (US dollar).

Country Code		1999	2000	2001
	MAL	3370	3250	3330
South Asia	BAN	350	370	360
	BHU	570	590	640
	IND	440	450	460
	MDV	1950	2070	2000
	NEP	230	240	250
	PAK	460	450	420
	SRI	860	890	880

Source: *WB. World Development Indicators 2003.*

The incidence of poverty in Malaysia was very high in 1970. About 60% of the rural households were poor as compared to only 21% of the households in the urban areas. In 1997 about 11% of rural households were in the poverty group as opposed to 21% of the urban households. Similarly, incidence of hardcore poverty in the rural areas in 1997 was 2.4% as compared to 0.5% in the urban area (Hussain, 2000).

Based on the above scenario, poverty eradication program has been given top priority with a target of reducing the incidence of poverty to 16.7% in 1990, the end of New Economic Policy (NEP). The achievement was very good, exceeding the target at 15% (Hussain, 2000). In 1999, the incidence of poverty reduced at a remarkable amount at 7.5% (UNDP, 2003).

Table 6.2.4: - Comparative Poverty Situation in between Bangladesh and Malaysia.

Country Code	*Population in Poverty (%)*			*Proportion of Population Below $1 (ppp) a Day (%)*
	Total	**Urban**	**Rural**	
BAN (1999)	49.8	36.6	53.0	30.3 (2003)
MAL (2000)	7.5	3.4	12.4	0.2 (2003)

Sources: *Country Source*
WB, World Development Indicators 2001.
UNDP, Internet Website.

Table 1.3.1 shows the estimated level of rural poverty of Bangladesh after its Independence varied from 55.7% to as high as 82.9%, the latter being the official documents. There are fluctuations in the poverty indices in the official estimates by BBS and the reasons are mainly unexpected natural disasters such as flash flood, hail storm, draught etc.

Recently Bangladesh gained remarkable economic growth which is mostly similar to Malaysia's economic growth but comparatively Bangladesh could not achieved substantial amount of poverty reduction as Malaysia because of weak macroeconomic management, absence of strong economic policy given priority on poverty, lack of political commitments, ineffective governance and corrupt bureaucratic system.

CONCLUSION

Poverty is the most malignancy on earth. Billions of our fellow brothers and sisters barely survive on the equivalent of 1, 2 or 3 dollars per day. Because of impoverishment 25,000 people are dieing in every single day. So poverty is the greatest problem for this modern world. Millions of people around the world are trapped, controlled by violence, paid nothing and exploited for labor. Gandhi called poverty " the worst form of violence". Human beings do not wish to be poor, senile or malnourished. Large-scale poverty does not exist because people are stupid, lazy or incompetent. Factors like religion, a history of colonialism or the so-called "work ethic" do not explain the vast imbalance in access to resources. Billions of people languish in poverty and hopeless because social, cultural and economic forces beyond their control marginalized and oppress them. This chronic, systemic deprivation is called " institutional" or " structural poverty". Amartya Sen calls it " unfreedom". Muhammad Yunus calls it slavery.

World poverty causes untold suffering and squandered human potential. Profitable private and social enterprises help families and nations lift themselves out of misery, that is, to get out from this worst pandemic rising income is the first thing to do. Large-scale investments facilitate more jobs and the upshot is higher income that means economic development. Long-term rapid economic development resulting from industrialization – like Hong Kong, Singapore, South Korea and Malaysia – with strong stable investment climate might be able to open new era to ride to the development ladder from poverty. Current century is recognized as Asian century because of its unprecedented higher economic growth which is on average steady and stable.

South Asia sustained the impressive economic performance of the year's 2004 and 2005, registering high growth of 8.1 percent in 2005 (Fig 1.1). This is above Asia's regional average growth in GDP of 7.6 percent, and it significantly outpaced the world economy. The brisk growth of output translated into 6.5 percent (Fig 1.1) increase in per capita income in SA. The pace of growth slowed in Bangladesh which is approximately 5.2 percent (DFID Evaluation Report 2006).

In 1990, just over 40 percent people in SA are living on less than one dollar a day. This decrease to about 30 percent by the 2002 and if poverty level keep declining at the current rate, part of the first MDG is likely to be met and possibly even surpassed. Bangladesh achieved impressive success on IMR, MMR and on net enrolment in primary education. In case of access to safe drinking water and basic sanitation remarkable improvement will be achieved by the 2015.

Despite of very tangible fiscal policy reform, trade reform, banking policy reform; Bangladesh is combating with ineffective governance and corrupt bureaucratic systems. Within the whole SA, politically Bangladesh is the least stable country, not only that but also corruption complicity is rooted from top to bottom in whole public sector. Control of corruption is the first combating hurdle, which is also lowest (7.9 percentile) within the region, to create investment favored environment for the great and rapid extent of private sector. For the sustainable economic growth there is no alternative rather than good governance in the context of Bangladesh.

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