

Poverty reduction through enabling factors

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Abstract

Purpose – The purpose of this paper is to identify the factors which are instrumental to poverty reduction opposed to many factors that are considered as impediments to poverty reduction in a poor country like Bangladesh.

Design/methodology/approach – This paper is an outcome of review of literature covered wide range of issues including sectoral contribution to economic growth but none has exclusively dealt with the instrumental role of the poverty reduction factors, insider's view, long-term observations (1960-2014), and reviews of secondary data.

Findings – In order to reduce poverty, rather than attempting to change the “culture of poverty,” remove the “structural trap,” or “kin system as poverty trap” it can be achieved through harnessing the enabling factors of poverty reduction. Study argues that rather than focusing on “barriers” to poverty reduction, a country needs to identify and focus on its “potential” factors of poverty reduction. The dominant enabling factors for Bangladesh were agricultural development and remittance. The utilization of land and labor could bring a transformation in the rural economy of Bangladesh which was essential to poverty reduction.

Practical implications – The study shows that the individuals can escape poverty largely through their own effort where a proper policy support from the government is needed. The state needs to play the facilitating role rather than the instrumental in the case of poverty reduction.

Originality/value – The paper reveals instruments to poverty reduction where usual practice was to identify the barrier to development and to suggest the means of overcoming those barriers. It suggests how to look into the matter from other way round where instead of identifying the barrier attempt should be made to identify the enabling factors and to harness those enabling factors. The findings are based on the country-specific literatures but not generalized in the form as attempted here. The study shows a means of poverty reduction where country-specific strategy or home-grown model can be drawn out based on the identification of potential factors.

Keywords Bangladesh, Poverty alleviation, Culture of poverty, Kinship trap, Poverty trap

Paper type Research paper

Introduction

Poverty has always been a matter of concern for most countries of the world. In the context of development, Bangladesh has been a target for insolence during its infancy. The infamous comment of the former US Secretary of State Henry Kissinger about Bangladesh being a “bottomless basket” is widely known. On the other hand, Faaland and Parkinson (1976) termed Bangladesh to be a “test case for development” saying that if Bangladesh could develop economically, it should be possible everywhere else on the planet. Defying these infamous notions, Bangladesh has emerged to be an example for development. To begin with the brighter sides, an article by Dhume (2010) can be considered as a strong rebuttal to the previous ill-comments against Bangladesh. Bangladesh can be considered as an active global propagator of new ideas such as Grameen Bank, and is expressed to be a “success story” among international donors' vocabulary (Lewis, 2011). Former US Ambassador in Bangladesh Dan Mozena stated that Bangladesh would transform from the “bottomless basket” to an “overflowing basket” very soon. Secretary General of International Chamber of Commerce, John Danilovich during his visit to Bangladesh said that Bangladesh, being no longer a test case, is a model country for the rest of the world.

Poverty studies so far covered multiple prime issues like measurement, types, causes, methods and means of alleviation, models of poverty reduction, globalization and poverty, climate change and poverty and so on starting from Adam Smith to till today. Each year the UNDP through its Human Development Report presents a global picture on the



poverty reduction and development. Indeed, with the shift in the perception of economic development from economic growth to poverty reduction, scholars adhered to contribute to the issue enormously. Some recent comprehensive accounts given on poverty (Banerjee *et al.*, 2006) cover almost all aspects that is to be taken into account while attempting to address the global poverty.

It has become a central concern for development experts particularly dealing with developing nations where a strong debate was there centering the measurement method of it along with strategies to be followed to triumphed over it. For example, Deaton (2006) has given a critical assessment of various methods used over last several decades by different international and national agencies or scholars. Deaton has critically analyzed different methods so far used which include the PRA method (putting last man first), other scientific approaches like calorie-based poverty lines, headcount ratio, index of well-being, poverty gap, and so on. Deaton concluded with the view that having all kinds of faults in poverty data, a fairly clear picture is now emerging in the world. He, however, noted that despite all wills and zeals from the different stakeholders, poverty is not reducing in many parts of the world. Likewise, Sen (2000) redefined the poverty by using the capability approach which contains absence of one or more capabilities that are needed to achieve minimal functioning in the society in which the person lives. According to him those include income poverty (food, cloth and shelter), health poverty (being unhealthy), access to education, political participation or full role in the society. Sen (1976, 1982, 2000) has illustrated all his fundamental ideas of poverty measurement and combating strategies in his several works.

Scholars from both developed and developing nations paid high attention to understand why reducing poverty was so difficult. Two explanations were highlighted, one being the “poverty trap theory” covering “structural trap” and “kinship trap theory,” and the other being the “culture of poverty theory.” It is assumed that the authors have considered their theories as sufficient to explain the poverty conditions. In addition to these, colonialism, new-colonial society, dependency theory, and world system are some other theoretical stands which did not get much attention from mainstream scholars. Biggs (2008) mentioned that the opportunity of reducing poverty is missed because of not learning enough from experiences where positive changes have taken place, the lesson unlikely to be the same in every case.

This paper argues that the two theories mentioned above are not necessarily applicable in every country although it is assumed like that and the mechanism required to develop a country will also vary from country to country. This idea goes hand in hand with the statement of Nobel Laureate Douglas North that economies that adopt the formal rules of another economy will have different performance characteristics than the first economy because of different informal norms and enforcements.

Objectives of the study

In general, there are two hypotheses of this paper which are as follows:

- H1. It is not necessary that the theories of poverty trap (structural and kinship), and culture of poverty are applicable to every poor country.
- H2. Every country has its enabling factors that contribute the most in reducing poverty, despite the existence of hindrances.

This paper tries to answer the following questions:

- (1) What are the criticisms of “poverty trap” and “culture of poverty” theories?
- (2) What is the prevalence of poverty trap and culture of poverty in Bangladesh?

- (3) What are the dominant strategies that helped Bangladesh to leave poverty behind?
- (4) What are the lessons that other countries could learn from Bangladesh?

If we take a close look at the two major theories, we can notice that the structural poverty trap theory blames the rich, where the kinship trap and culture of poverty theory blames the poor. To begin with, the two major theories contradict each other and none of the theories give any solution to the problem of poverty. This raises the question: is not there any way out of poverty? The consideration of enabling factors does not blame anybody; rather it shows a way to move forward. If more thought is given to the identification of the potentials of any country rather than specifying the problems, it is possible to work out the ways and means to harness those potentials and thereby, reduce poverty.

This paper is an outcome of review of literature, insider’s view, long-term observations (1960-2014) and reviews of secondary data.

An overview of the poverty and growth situation of Bangladesh

Before testing of all the theoretical stands, a quick overview may be made to delineate the fact whether Bangladesh could substantially move forward in the case of overall poverty reduction. The Household Income and Expenditure Surveys conducted by the Bangladesh Bureau of Statistics (2011) give the statistics of the incidence of poverty faced by Bangladesh, measured using the poverty headcount ratio method as shown in Figure 1.

Under the Pakistani rule, the national poverty rate in 1963-1964 was 33.1 percent, which increased to 46.4 percent right after liberation in 1973-1974. The trend of poverty has been increasing since then, reaching the highest rate of 71.2 percent in 1981-1982. Despite the sudden drop to 43.7 percent in 1983-1984, poverty rate increased again, reaching 56.6 percent in 1991-1992. Since then, the rate has been declining, reaching 31.5 percent in 2010, and is estimated to be 26 percent in 2014. Population suffering from extreme poverty in 2014 was 10.64 percent whereas it was 17.6 percent in 2010. Data further revealed that out of 64 districts, 12 (18.75 percent) had less than 10 percent of its population suffering from the extreme poverty whereas four (6.25 percent) had less than only 5 percent (Figure 1). Though the rate of decline in the poverty level is quite high in the urban areas compared to that of the rural areas, it is quite clear that at the national level, poverty is dominated more by the rural areas. This can be explained by the fact that despite the growing urbanization, around 67 percent of the population lives in the rural areas. Therefore, in order to have a stronger impact of poverty eradication at the national level, it is important to take poverty reduction measures targeting the rural population.

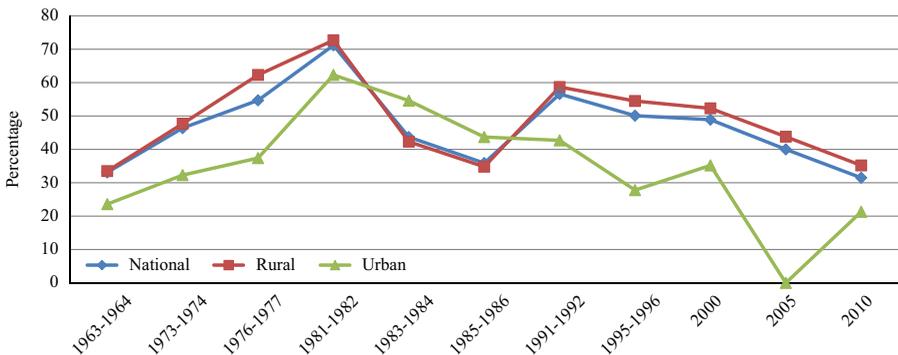


Figure 1.
Poverty headcount rate in percentage

Source: Reports of Bangladesh household income and expenditure surveys and Bangladesh Bureau of Statistics

Along with the poverty alleviation, there are other certain development indicators such as per capita income, population control, immunization, food security, gender development, disaster management, and many more, where Bangladesh has shown its ability (Planning Commission, 2011; Sen, 2013) to develop; at times even better than her neighboring countries such as India or Pakistan. Hussain (2015) mentions the possible reasons behind the poverty alleviation which include increased growth, more public service expenditures and safety nets, labor intensive exports, increased remittance, and microcredit.

Overall, the Gross Domestic Product (GDP) per capita of Bangladesh has always had an upward trend, the rate of growth always being positive. In the beginning years of the country the rate of growth is seemed to be very quick, which can be explained by the rebuilding of the country. Though in the mid-1970s there was a sharp fall in the growth rate of GDP per capita, it did not take much time for the recovery, the growth rate reaching almost double since the mid-2000s (Figure 2). It can be assumed that this economic growth plays a vital role in poverty reduction.

The two theories in the context of Bangladesh

Poverty trap theory

There have been very few studies regarding the situation of poverty trap in Bangladesh. Alamgir (1977) pointed out that Bangladesh was suffering from a below poverty level equilibrium trap. In rural Bangladesh, in general, most of the peasants were small or marginal farmers with little farm size of their own (Alam, 1985), and land laborers are free to choose their occupation. With the change in farm size, social arrangements on land have also been changed as some small farmers preferred to go for sharecropping. Some have been selling lands located far away from their residences for management reasons, whereas some have been cultivating their land by engaging their family or hired labor. Some authors such as Alam (1985), Rahman (1986), Bhaduri *et al.* (1986) claim that instead of polarization (Jahangir, 1979) of land occupancy, a kind of land redistribution worked in rural Bangladesh. Sen and Hulme (2004) considered that Bangladesh experiencing more sustained growth, and poverty decreasing at a faster rate than population growth reducing number of poor people by 6 million since 1980s, defying the notion that rapid population growth, frequent natural disasters, and low economic growth would trap most households in chronic poverty, was a sign of getting out of poverty trap. Ahmed (2005) found that the high cost of healthcare hinders healthcare access to the poorest people, increasing morbidity rates and destroying coping strategies, eventually leading to poverty traps. World Bank (2008) mentioned that despite evidence of poverty traps in certain areas of Bangladesh, due to severe and repeated community-wide external shocks, the sizable decline in the incidence of extreme poverty challenges the existence of a poverty trap.

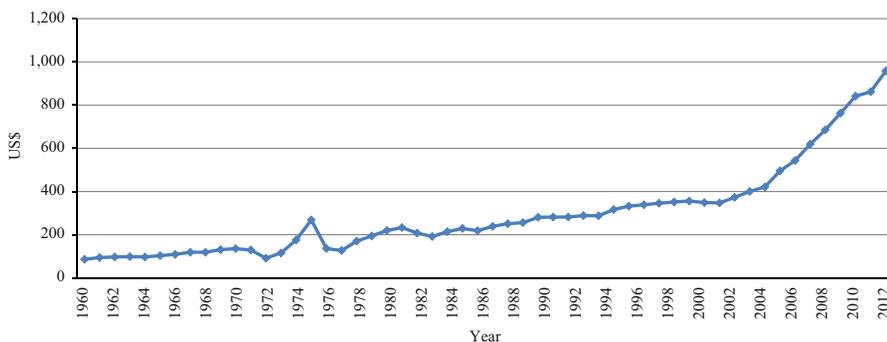


Figure 2.
GDP per capita (US\$)
in Bangladesh

Source: Compiled from World Bank Indicators

In a study regarding the gender division of labor in farm households, Parveen (2009) found that female members operated under a vicious cycle of poverty due to the poor economic conditions of farm enterprises. Quisumbing and Baulch (2013), in an empirical study regarding the assets and poverty traps in rural Bangladesh, did not find any evidence of poverty traps in relation to land or other household assets. On the other hand, Ferreira (2014) stated that income per capita had a negative correlation with the duration of living in the slums or leaving countryside, indicating the presence of a poverty trap.

As evidence against the existence of a poverty trap, we can say that in Bangladesh, the share of large farms is reducing over time; small-sized farms are increasing in number. Farms are considered to be small when they consist of an area of 0.05-2.49 acres, medium when they consist of an area of 2.50-7.49 acres, and large when they consist of an area of 7.50 acres and above. According to the Bangladesh Agricultural Census (BBS, 2008) small farms were 84.27 percent, the medium farms were 14.19 percent, and the large farms were 9.58 percent.

Culture of poverty theory

There have been a few studies regarding the culture of poverty in Bangladesh such as Maloney (1988) that find behavioral causes for poverty in Bangladesh which are linked to the culture of the people, namely, historical exploitation, entitlement to patronage, indulgence, personalization of authority, ethnic and national identity, explaining the concept of culture of poverty to a certain extent. A culture of poverty was found to be severe in the slums of Dhaka city (Das, 2000). The social structure of the slums have created a “slum culture” which forced dwellers to live a “sub-standard” life, obstructing them from participating in urban-social structures such as the formal economy, education, public administration, political activities, trade unions, social welfare organization, and to take advantage of social and cultural institutions provided in the cities, making them completely adjusted to the poverty situation. Hashmi (2008) questions the eagerness of the people to bring change to the situation. He claims that the people suffer from an endemic identity crisis, and peasants suffer highly from inferiority and deprivation, having a “we-vs-they” mentality. According to him, it is the backwardness of the people that holds the culture and values responsible for the problem of poverty, and the solution for this is modernism and urban culture.

Factors which lead to development

The rapid decline in poverty of Bangladesh can be associated mostly with the contributions of agricultural development and remittance inflow. There are many other factors which added to that such as innovation of microcredit in Bangladesh which also contributed both locally and globally to the poverty eradication. The concept of microcredit was innovated in line with finding “enabling factor” or capability development of a poor who was lacking very basic material resources for harnessing his/her capabilities. It started with an opposite idea of banking where the traditional bank was allocating resources to the rich while a dire need was there of a bank to allocate the resources to the poor (Yunus, 1999). A conservative estimate shows that microcredit has helped to reduce the overall rural poverty in Bangladesh by about 5 percent and extreme poverty by about 10 percent. Among the borrower households microcredit has helped roughly one out of ten borrowers (Osmani, 2014).

Innumerable studies have been done on the merits of microcredit around the globe which suggest that it plays a significant role in alleviating poverty, empowering women, improving living standards, facilitating self-employment, and providing for better education and healthcare outcomes (Hasan *et al.*, 2009; Haque and Harbin, 2009; Hossain and Knight, 2008; Ahlin and Jiang, 2008; Jha and Bawa, 2007; Osmani, 2007; Pitt *et al.*, 2006; Coleman, 2006; Chowdhury *et al.*, 2005; Khandker, 2005; Morduch and Haley, 2002; Rutherford, 2001;

Hulme and Mosley, 1996). Opposite views were there which show that microcredit has a little impact on poverty (Armendariz de Aghion and Morduch, 2010; Odell, 2010; Barboza and Trejos, 2009; Goldberg, 2005) as microcredit loan holders becoming trapped in debt, lending organization staff apply intense pressure on the borrowers to make timely repayments, getting new loans from wherever they can in order to manage loan repayments and so on. Alam (2014) also pointed out that while microcredit has helped improve the living standards of many, it has failed to meet the needs of the poorest in society. The paper identified the weakness of the microcredit model and suggested an alternative new model to alleviate the poverty of those beyond the reach of traditional microcredit.

Agricultural development

In Bangladesh availability of land for the agricultural production has declined but the total agricultural production has increased because of the rapid expansion in accessing irrigation and potential machineries. The use of agricultural land has intensified during the last three decades. There is continuous transformation from single crop (30 percent of net cropped area) to double (55 percent) and triple crops (15 percent). The cropping intensity of the country is now about 182 percent (Banglapedia, 2015).

Land owned per household has decreased from 1.50 acres in 1988 to 0.75 acre in 2013. Hossain (2004) showed that agriculture performed well in the 1990s compared to previous two decades. The growth of agricultural incomes is at 3.5 percent per year during 1990-2001 compared to 2.6 percent during 1974-1990. The national income grew 5.3 percent in 1990 from 4.1 percent of previous two decades. Bangladesh has increased its food grain production over the past 28 years from 11.8 million metric tons in 1974 to more than 34.5 million metric tons in 2010-2013 (Banglapedia, 2015). Wennergren *et al.* (1983) quoted a study led by the Institute of Nutrition and Food Science, University of Dhaka that the total food intake per capita decreased 4.0 percent between 1962-1964 and 1975-1976. The per capita availability of food grains increased from around 444 grams per day in 1991-1992 to around 598 grams in 2013-2014; while 508 grams/day/capita is regarded as the ideal of per capita food grain requirement in the country (Talukder *et al.*, 2015). There has been a remarkable increase in cereal yield in terms of kg per hectare during this time. In 1972 cereal yield was around 1,500 kg per hectare. Yield had increased to about 3,800 kg per hectare by 2006. This rise in productivity has resulted in increased crop production during this period (Raihan, 2012). Poverty has declined by 8.5 percentage points (approximately 1.7 percent per annum) at national level, 8.6 percentage points in rural area, and 7.1 percentage points in urban area during 2005-2010.

The rice wage per day remained stagnant for the most part in the 1980s and increased only modestly in the 1990s (from 3.5 kg in 1990/1991 to 4.5 kg in 1999/1990). The real breakthrough came only in the second half of the 2000s: rice wage per day remained at 8-10 kg in 2008-2013 period (Sen and Ali, 2015). Another significant indicator of poverty reduction is food security. Food security at household level is closely linked with poverty. In Bangladesh, the food grain production has more than doubled during 1980-2013 and has grown at 2.61 percent (Nath, 2015). The study also showed that, after 2000, the food grain production was in surplus after meeting the consumption requirements. Per capita food availability reaches the level of consumption requirements in the 1990s and showed surplus of 80 grams in 2000-2010 and 120 grams of food grain availability for consumption in 2010-2013. Food availability has increased at 3.12 percent, and per capita food availability has increased at 1.45 percent during 1980-2013. Adequacy of food grain availability has increased by 0.42 percent point in aggregate and by 0.64 percent point in per capita food grain availability. Self-sufficiency of food grain production is around 98.8 percent.

Although the share of the agricultural sector in Bangladesh has decreased in GDP, it remains a predominant sector in terms of size, employment, and livelihood. According to Loayza and Raddatz (2005), labor intensive (in terms of size) sector has stronger effects on

poverty reduction. In Bangladesh, the agricultural sector is the most labor intensive sector. The overall real annual average growth in GDP for 1973-1981 was 5.9 percent (Wennergren *et al.*, 1983). On the other hand, growth has increased from 2.5 percent during fiscal year 1980-1990 to 5 percent during fiscal year 2011. World Bank (2008) found that agricultural growth is especially effective for poverty reduction. They showed a cross-country econometric analysis that estimates that the overall GDP growth originating in agriculture is, on average, at least twice as effective in benefiting the poorest half of a country's population as growth generated in non-agricultural sectors.

Migration or remittances

Inflow of personal remittances in Bangladesh was US\$13.86 billion in 2013. As per World Bank indicators, remittance as a percentage of GDP was 9.2 percent in 2013 and estimated to be around 11.2 percent in 2015, which is drastically high compared to the value of 0.186 percent in 1976. Remittance shares jumped tremendously from 4.48 percent in 2001 to 6.01 percent in 2002 and continued to rise since then (Figure 3).

An overview of migration

Chaudhury (1980) claims that migration tends to be generally higher from villages characterized by land scarcity, skewed distribution of land, and a high proportion of agricultural labor. Khandker *et al.* (2012) revealed that from northwest region, 36 percent of poor households migrate every year during the *monga* period to cope with seasonal deprivation. It is also claimed that the probability of seasonal migration is high for households with a high dependency ratio and high dependency on wage employment, and villages with high unemployment, but low for villages with microcredit access.

Initially the migration took place in a backward area mainly in the form of forced migration rather than the induced migration, as people with many household members or with high food insecurity was impelled to go outside the area for their survival. The first generation of impelled migration created a condition for the induced migration. Indeed, there were two dominant stages of migration where the first stage was predominantly impelled migration and the second stage was predominantly induced migration. Since there was no fixed order of the migrations, both could occur at the same time, be mutually exclusive or be intertwined.

Through diversity people could earn more and could send remittance to their household members, allowing their family members to receive more money, which could go for educational and occupational changes. In this process while people could choose some new occupations, learned new methods of earning and managing livelihood, there would always be a laggard group and a forerunner group. For instance, if anyone from a particular

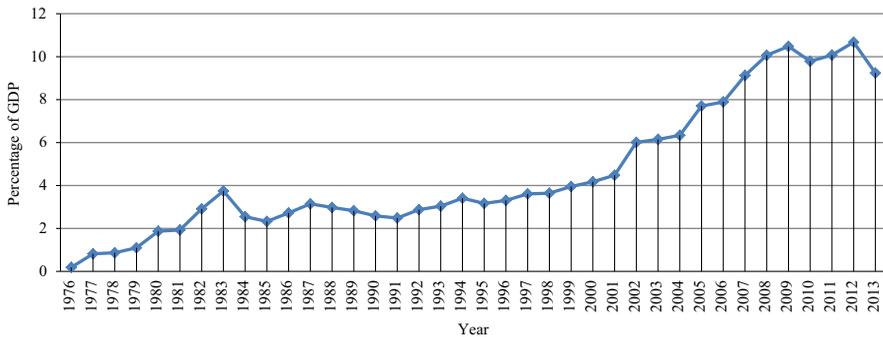


Figure 3.
Remittance
(percentage of GDP)
in Bangladesh

Source: Compiled from World Bank Indicators

community got the scope of diversity, there would be a long-lasting effect on the whole community. As the increased success of one induced others to go for new adventures, the diversity increased at a geometric rate. The whole gamut could be measured by the growth of the middle class, since the higher the growth of middle class, the better the diversity. In fact, the quicker the alliance of the poor with the non-poor, the faster would be the positive changes. The agrarian structure or the political system or both together might stand in the way of creating or extending alliances. Though this kind of a barrier remains in almost all societies, some societies can overcome the barriers relatively faster due to some natural advantages or political leadership.

Thus, the reason for labor out-migration is again structural since due to the downward pressure of the upper strata of the agrarian hierarchy, in certain times of the year, people become more vulnerable to survive in the rural area due to insufficient or the lack of work. With the increased pressure of population growth, continuous land fragmentation and sharecropping becoming increasingly difficult – working together as an income-depressing factor. For combating this situation or as a part of economic adaptation, people from the lowest level of agrarian hierarchy migrated mainly to the urban areas of the country or abroad. Thus, a structural hierarchical pressure on the landless people is responsible for another structural change in the rural area which impelled them to migrate.

Migration and development

The relationship between remittance inflow and economic growth depends on the context of the country. Various studies focusing on the context of Bangladesh come up with quite similar results, generalization about the effects of migration on broader development, inequality or poverty being not always possible. Stahl and Habib (1989) argued that there is an average multiplier effect of remittances for the period 1976-1988 which is 1.24 (Datta and Sarkar, 2014). In a panel data study from rural sending areas (Rahman *et al.*, 1996), it was found that families with migrant members had a poverty level of 30 percent, much lower compared to a magnitude of 60 percent for those without migrant members. Proportion of families considering themselves to be poor and extreme poor was 54 percent for the non-migrant's whereas it was only 8.7 percent for that of the migrant's, with a decline in the proportion of poor or extreme poor for migrant households by 26.7 percent between 1990 and 1995 (Afsar, 2003). Afsar (2001) concluded that remittance was being used for education and illness purposes by 40 percent of the temporary migrants' families. Since education and health is supposed to have an impact on poverty, it can be assumed that remittance is indirectly affecting poverty through its impacts on education and health. A study by Hossain and Moore (2002) suggested that remittances have contributed to 12.8 percent of household income.

de Haan and Rogaly (2002) mentioned that the relationship between migration and rural change is complex and context-specific. Despite its frequent inequality impacts in many cases migration also supports vulnerable livelihoods. Ratha and Mohapatra (2007), in a G8 Outreach Event on Remittances in Berlin, stated that the percentage of poor people is reduced by 6 percent due to remittance. Another study (Raihan *et al.*, 2009) concludes that the poverty level during 2000-2005 decreased by 1.7 percent due to remittance. Barbier (2010) mentioned that the relationship between poverty and natural resources depends on a complex range of choices which is even linked to employment outside the country. On the other hand, another study by Ahmed (2010) stated that the remittance elasticity of poverty is found to be -0.5467 . Siddique *et al.* (2012) suggested that the growth in remittances leads to economic growth in Bangladesh.

A recent study (Datta and Sarkar, 2014) came to the conclusion that though remittance has a positive impact of 2 percent per unit on growth in the long run, there is no predictive causal relationship, neither in the long run or in the short run. Imai *et al.* (2014) concluded that a 50 percent increase in the share of remittance in GDP, from 11.78 to 17.67 percent, increased

GDP growth from 4.30 to 4.97 percent, reducing poverty (on US\$1.25 per day) from 49.60 to 38.69 percent and (on US\$2 per day) from 81.30 to 71.54 percent. Similarly, Masaduzzaman (2014) found that remittances have a long-run positive impact of 1.4 percent on GDP. Impact of remittances on growth can further affect poverty since growth is considered to be a major contributor to poverty reduction. Thus, dropping the exceptions, the overall impact of remittance on poverty reduction in Bangladesh is significantly optimistic.

Policy implications

The study has considerable policy implication as it will help the policy makers to identify the country-specific enabling factors for poverty alleviation. With this concept the policy makers will be able to figure out the enabling factors at the national level first considering the scope of aligning the human and natural resources together. The citizens of the country will envisage the solution of the poverty problem among themselves; and become keen to make the best utilization of visible and invisible resources far and near as per identification. It is not the resources which are lacking, it is the policy which is lacking to identify and utilize that for the people's development.

Conclusion

The paper shows that despite existence of many limitations, Bangladesh has been able to reduce the poverty using its enabling factors, mainly agricultural development and remittance. There is clear evidence that the harnessing enabling factors can help leave poverty behind. This paper mainly argues that a universal approach in development may not be there, rather, country-specific approach needs to be evolved and followed, considering the enabling factors. The discussed theories mainly focused on the causes of poverty, where the developing nations need to single out the "enabling factors" for removing poverty. Thus, like Bangladesh, other developing countries should also figure out their "enabling factors" which will help them to leave poverty behind. A further study is to be carried out to evolve the systematic process of identification of enabling factors for each nation.

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