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Hanging on a thread: financial crisis, risk and vulnerability among the extreme poor in Bangladesh.

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1. Introduction

There is now universal consensus that the world is experiencing a global financial crisis. However as recently as 2007, many OECD and developing countries were reporting positive GDP figures and growth rates and for the most part, ignorant of or playing down any notion of a global crisis. Over the last two years or so, the optimism has evaporated and been replaced by deep rooted anxiety and concern about the future of key national and international institutions. Initially as the scale of the crises became apparent, the focus of attention was fixed exclusively on the situation of the world's advanced capitalist economies. The immediate response included high profile state-led subsidises for financial institutions otherwise known as 'bail outs'. These policy interventions effectively used taxpayers' money to ensure that major financial institutions did not default and become bankrupt. Although clearly targeting immediate national political and macro-economic priorities, the justification offered for this particular intervention adopted a more universal and almost moral appeal: saving the financial institutions was necessary in order to prevent a breakdown of the entire global economy. The paradox of such a moral appeal was not lost on those who described the bailouts as 'cash for trash' (ISSA 2009) ¹, a reference to the fact that many of the financial institutions were holding toxic debt some of which had little or no chance of ever being repaid.

While the world's attention was focused on building 'safety nets' for its leading financial institutions, very little interest was given to the repercussions of the crises for poorer societies. This of course was short-sighted if not sadly predictable. The World Bank estimates that in 2009, the number of poor people will increase anywhere from 53 to 64 million partly as a result of the financial crises (Chen and Ravallion 2009). The UK Department of International Development offers an equally sombre analysis estimating that by the end of 2010 as many as 90 million more people will fall into poverty (DFID 2009). And as we all know, behind these figures lie countless stories of people bearing the very worst consequences of rising unemployment, hunger, ill health, asset loss – a level of suffering that intensifies in the case of the most vulnerable of society. Extreme poor households have fewer assets, negligible support mechanisms and weaker portfolios of social and human capitals. Declining growth rates linked to the global financial crises exposes these same households to unforgiving high risks which will have consequences well beyond the period of the crises itself. Ignoring the repercussions of the crises on global poverty therefore is a misguided, flawed and unethical policy response. The 'safety nets' used to prevent the collapse of global financial institutions were of a magnitude and scale that have never been seen in poorer countries. If a similar scale of assistance were deployed in poorer

¹ See '*Financial crisis may impact prospects for social security extension*' at <http://www.issa.int/aiss/News-Events/News/Financial-crisis-may-impact-prospects-for-social-security-extension>, accessed 14 June 2009

societies and used in ways that actually benefit the extreme poor, the global struggle to halve poverty would have made very significant advances.

This paper offers a reflective commentary on social policy programmes established to alleviate poverty in Bangladesh. The choice of Bangladesh is appropriate because prior to the crises it had enjoyed a prolonged period of positive economic growth and had successfully rebuilt its intellectual and human capital base. On the back of its success, the country was 'promoted' to the league of medium human development countries (UNDP 2003). Over the last two years, the Government of Bangladesh has significantly expanded its social protection programmes and this has undoubtedly served to help some of the population (te Velde *et al*/2009). However the severity of the crisis of the past two years has brought to a halt some of the recent progress in poverty reduction, and may have longer term impacts that will take years to recover from. Recent work by Hossain *et al* (2009) exploring the impacts of the global food, fuel and financial crises on developing countries highlights key areas that have been immediately impacted in Bangladesh: school withdrawals, changes to frequency and quality of food consumption, distress asset sales, greater vulnerability to disease and weakness, increasing risk of elderly being abandoned, increase in domestic violence and some evidence of increased dangerous/illegal activities. If nothing else, the crisis is far reaching and its impacts are likely to be transmitted inter-generationally.

The paper addresses two key issues. First it offers a critical reflection on the effects of the current crises on programmes established to address the needs of the extreme poor. This analysis will draw primarily on the authors' experiences of working in and managing large scale poverty alleviation programmes in Bangladesh. This experience has involved detailed and ongoing interactions with key policy makers in Government, donor agencies and civil society actors. The paper will reflect on the perspectives, often competing, of these different stakeholders. This macro reflection will be supplemented by an analysis of the everyday strategies adopted by extreme poor households in the face of the current crises. This will draw more on the experience of extreme poor households involved in a major poverty alleviation programme supported by the UK Department for International Development: the Chars Livelihoods Programme (CLP). The CLP includes the transfer of core assets and the provision of income safety nets to the extreme poor. These are accompanied by different elements of support, training and capacity building. The main objectives of the programme are to strengthen livelihoods security and reduce the vulnerability of men, women and children residing in char areas².

The main argument of the paper stems from an unambiguous ethical conviction: if investments made to protect global financial institutions were

² A char is a sandy area of land deposited by a river. They are highly susceptible to erosion, especially during monsoon floods.

used to address the needs of the extreme poor, the global community would make unparalleled strides towards eliminating poverty. Through its analysis and critical reflection of the situation in Bangladesh, the paper offers a key supportive argument. At a time of global economic crises it is important that decision makers globally as well as in poorer societies renew their commitment to protect the poorest. One of the key reasons for this is that the for the poorest, the characteristics, severity and impact of any crisis are qualitatively different than they are for non-poor people. Poor people rarely have the luxury of dealing with only one crisis at a time. Any crisis quickly compounds with others producing a cumulative impact that is far greater than the impact of the crisis itself. The lack of commitment to protect the poorest therefore risks not only undoing previous poverty reduction achievements and successes, but also condemns the poorest to a life of greater adversity and vulnerability. For this reason our argument is as much about operations as it is about ethics. Addressing the needs of the extreme poor therefore is foundational to an effective and sustainable response to the global financial crises.

2. Global crisis in Bangladesh

Exposure to the Global Political Economy

The extent to which a country like Bangladesh is likely to be impacted by global crises depends to a large extent on the degree and form of exposure it has to the wider global economy. Bangladesh is a very dynamic society, deeply exposed to and already penetrated by global forces and processes. A useful way of understanding the relationship between Bangladesh and the global economy is to look, albeit briefly, at the history of the country's economic liberalization (Rahman and Rahman 2009).

Following its independence in 1971, Bangladesh pursued an inward looking development strategy which entailed strong government control over and intervention in all aspects of economic activity. Given the predominantly rural character of Bangladesh, economic policy was initially focussed on agricultural development and with the early government committed (at least rhetorically) to a socialist ideology, a great deal of emphasis was put on the potential of cooperative farming. Government therefore controlled the procurement and distribution of seeds, fertilizers, pesticides and other forms of agricultural equipment. It also introduced a series of economic measures including quantitative restrictions, highly differentiated tariff rates (ranging from 0% to 400%) and huge subsidies, which were then supported by a deliberately overvalued exchange rate, in order to protect domestic farms from competition. This restrictive economic environment was further reinforced by domestic market policy interventions in the form of credit ceilings, arbitrary licensing and price controls.

These policies however failed to produce the desired increase of production and productive efficiency and as a consequence, the gap between the demand for and supply of agricultural products gradually increased throughout the 1970s. In response to this, a new policy direction was introduced in the 1980s which saw a shift away from state interventionism to more market-oriented policies that supported macroeconomic liberalization. New reform measures were introduced including the rationalization of tariffs; the liberalization of investment in irrigation; the privatization of trade in fertilizers, agricultural machinery imports, seed delivery and food distribution systems; as well as the management of agricultural research and extension systems. These reforms led to a reduced role for government, which was reflected in the distribution of goods, the reduction of subsidies, the liberalization of markets with producers' price incentives, the gradual elimination and narrowing down of the public grain distribution system, price stabilization through open tender procurement policies and the liberalization of food grain imports by the private sector.

Liberalization drives were of course not confined to the agricultural sector but affected the entire economy. By the early 1990s, Bangladesh had become one of the most rapidly liberalized low-income countries in the world. For some the speed and intensity of the liberalization process however were still not enough. A recent report by the World Bank observes that

“while trade liberalisation occurred in fits and starts in Bangladesh, stronger and more decisive commitment to trade liberalization was seen in the majority of the rest of the world. As a result Bangladesh lags behind on most measures of trade openness. Even after the reduction in nominal protection in the financial year 2007 budget, Bangladesh has the highest level of trade protection in the region, which itself is the most trade restrictive region in the world” (World Bank 2007).

Here we can not address the advantages and disadvantages of the call for deeper liberalization. However it is important to ask who gains and loses from these policy processes. We know for example that liberalization reforms have resulted in Bangladesh being more dependent on imports, including agricultural products. Ironically therefore, despite being a nation with the vast majority of its population living in rural areas and working in agriculture, Bangladesh now has weakening control of the prices of staple products that people need on a daily basis.

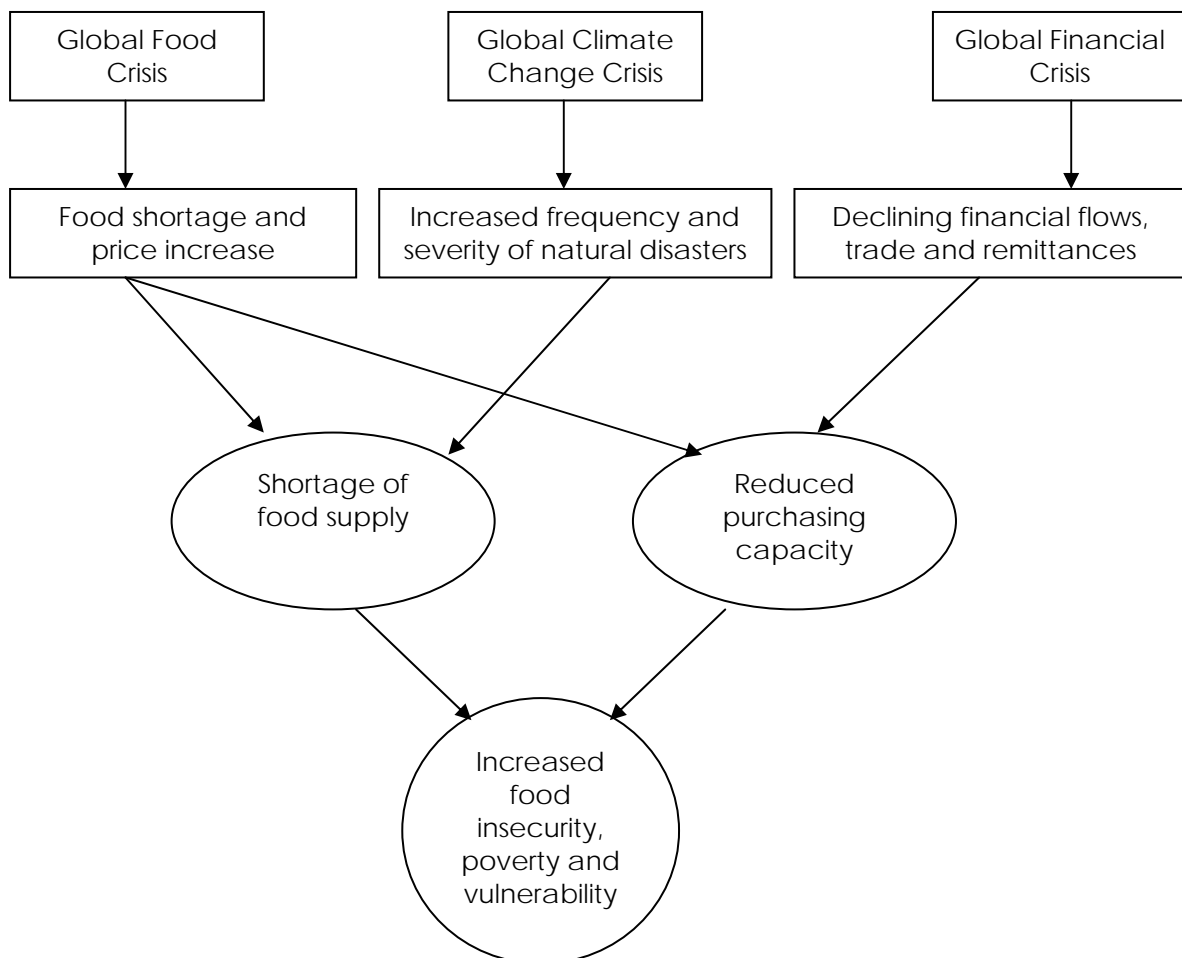
The discussion of liberalization draws attention to the nature of the relationship Bangladesh now enjoys with the global political economy. Bangladesh may be a poor country but it is a thoroughly globalised one. Much is made of the advantages the global world brings to Bangladesh (for example migration and remittances, new employment opportunities such as the garment industry and so forth) but the truth is that Bangladesh is structurally positioned in a weak position in relation to the global political

economy. Hence when there is a 'global crisis', countries like Bangladesh are rarely prioritised but deeply implicated.

The Compounded Nature of Crises

The financial crisis we are currently experiencing is a truly global phenomenon. However it manifests itself in very different ways in different contexts. One of the characteristics of the global financial crises in a country like Bangladesh is that it can never be really isolated as a 'financial' crisis. Unlike many other developed countries, the 'financial' crisis in Bangladesh is compounded and interacts with other crises and conditions in such a way that it is impossible to disentangle what is purely the 'financial crisis', and trace the impact of the crisis on people's lives. In countries like Bangladesh, crises accumulate and compound quickly, producing a cumulative impact that is far greater than the impact of the crisis itself. This exposes citizens to greater and normally longer-lasting vulnerability. To understand the impact of the global financial crises in Bangladesh therefore we need to locate it in a much wider landscape of crises, which we depict in Figure 1 and discuss below.

Figure 1: Compounded Global Crises in Bangladesh and their Impacts



Source: Adapted from Rahman and Rahman 2009.

One of the most powerful compounding factors with immediate relevance for discussions on global financial crises relates to climate change. Locally the two can not be separated. Bangladesh tops the list of those countries likely to be most (and worst) affected by climate change. One of the recent changes that the country faces is the increased frequency and severity of natural disasters. Cyclone *Sidr*, which hit the Bangladesh coastal belt in 2007, was one of the most devastating disasters in the history of the country and resulted in a huge loss of standing crops. As a result, the country faced one of its most severe food shortages since the 1974 famine.

Natural disasters like *Sidr* are but one example of the many climate change challenges facing Bangladesh. Changes in seasonal patterns and temperatures have a direct negative impact on agricultural yields and on production costs (European Parliament 2008). On the one hand therefore the country is struggling to produce the food it requires, and on the other it has to contend with global food price increases spurred by increased costs of production.

Climate change is also impacting very directly on the new geographies of poverty in Bangladesh with the emergence of local 'climate change hotspots' (BBS 2009). These hotspots are ecologically vulnerable areas that are extremely exposed to the changing patterns of nature. For example it is estimated that in the northwest region of the country, soil erosion from the river banks forces thousands of household every year to move and live on the lands of others. In most cases, this newly occupied land is also ecologically vulnerable and therefore unstable. Similarly, in the northeast water basins, the changes to water emergence and retreat are having a significant and negative impact on agriculture and food production. Not surprisingly, the hotspots are the areas populated by the poorest sections of society and therefore it is the poorest who are the front-line of 'global' adverse climate change.

The domestic food crises that followed *Sidr* coincided with a global food crisis that had been provoked by peaking food and commodity prices and an unprecedented shortage of food supply around the world. The food inflation rate for the poor in Bangladesh during this time exceeded 20%, much higher than the official food inflation rates including the overall rate and the rate estimated for the poverty line food basket (see Table 1). In 2008 and 2009, the post- *Sidr* crops were very good and this resulted in aggregate food supply. Close Government monitoring of food prices meant that the price particularly of rice and edible oil decreased significantly. Even here however the level of food insecurity among the poorest households, particularly in the ecologically vulnerable areas, remained dangerously low. Not for the first

time in its history, people suffered food shortages despite there being sufficient stocks.

While Bangladesh was facing its food crises, inflation rates soared. According to the Bangladesh Bureau of Statistics, inflation rates reached a staggering 11.21% in November of 2007 – the highest rate of the previous decade. The burden of inflation fell disproportionately on the poorer sectors of the society who had to cut expenditures in food, fuel, medicine and so on. A recent study by the Dhaka-based think tank Centre for Policy Dialogue (CPD) indicated that in 2008, 48.5 per cent of people in Bangladesh did not have enough money to buy basic food items such as rice. This compared to 40% in 2005.³ The increase of 8.5% is significant because in a country like Bangladesh, it amounts to an additional 12.1 million people.

The above discussion serves to reinforce two key points. First, global crises affect the poorest in society most. This is not a new or surprising statement. Over the past few years, the extent of poverty, vulnerability and food insecurity has increased in Bangladesh. This is reflected in the stunted rate of poverty reduction in the country. Recent estimates by the World Bank (2008) indicate that impact of the food price shock negated some of the reduction in poverty brought about by economic growth between 2005 and 2008. Others are less 'optimistic' and predict not only stunted progress but eventual increases in poverty levels. This prognosis is fuelled by our second general point. Crises in Bangladesh compound with each other, creating deeper insecurity and vulnerability, as well as extending the potential duration of impact. As stated earlier, some impacts of a crisis occurring today may only appear in future generations.

3. Addressing Extreme Poverty in Bangladesh

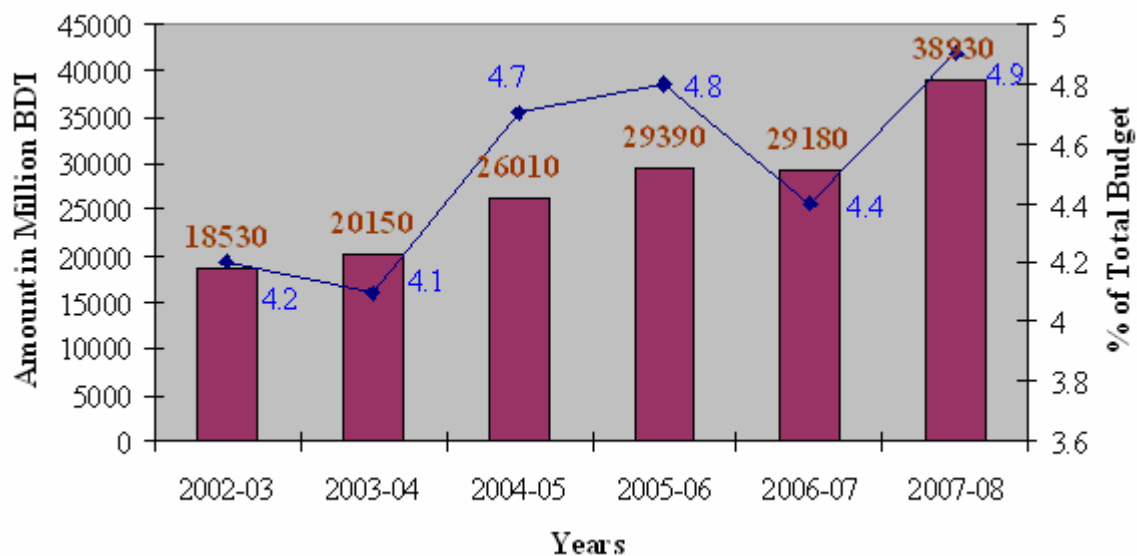
Despite considerable progress in poverty reduction, recent estimates confirm that around 40% the population (55 million people) live below the upper national poverty line and 25 % (35 million people) live below the poverty line (World Bank 2008). In responding to the task of tackling extreme poverty, the Government has put a lot of policy emphasis recently on the role of social protection (Government of Bangladesh 2004). This includes (i) ensuring macro-economic stability to ensure pro-poor growth; (ii) improving governance for sustaining growth and poverty reduction; (iii) investing in human development to enhance human capabilities; (iv) implementing social protection programs to reduce vulnerabilities and improve income-generating opportunities.

Until the late 1990s, government spending on social safety nets was less than 1% of GDP. However this increased over recent years and stood at 1.6% in the

³ See: <www.idsa.in/publications/stratcomments/AnandKumar300708.htm>

2007/08 allocations. The gradual increase is shown in Figure 2. The 2008 budget saw another significant increase in the share of expenditure allocated to social protection rising from 3.5 to 6.8% of the total government expenditure (te Velde *et al*/2009).

Figure 2: Recent Trends in Government Allocations for Safety Nets in Bangladesh



Source: Rahman 2007.

Around 13 % of households in the country benefit from at least one safety net, although the coverage is higher in the rural areas (15%) than in the urban areas (5%) (World Bank 2008). Although social safety nets are intended to protect the poor in general and the extreme poor in particular, the coverage offered by the programmes is still relatively small in relation to the needs of the intended beneficiaries. While there is some positive evidence that participation in these programmes decreases with income/consumption, it is the lack of coverage for the poorest that is of greatest concern. Among the bottom 10% of the population, coverage stands at just 23% (World Bank 2008). These figures do not take three important factors into consideration. First, the high rates of leakages in safety nets programs reported in several studies (e.g. World Bank 2006). Second, the significant regional variations of coverage (BBS 2006), indicating a trend in which programmes follow political strength. Third, a sizeable share of the benefits does not go to the poor. For example Gentilini (2009) reports evidence from Ahmed *et al*/stating that only 6% of the poor in Bangladesh are actually covered by safety net programmes.

One of the concerns regarding social protection programmes is the relative absence (at least until recently) of any serious policy differentiation between the needs of the general poor and those of the extreme poor. The

programme we are working with (Economic Empowerment of the Poorest) starts with the fundamental premise that there is a clear disjuncture between the reality of 'extreme poverty' and 'poverty' resulting in qualitatively different experiences, dynamics and characteristics. By implication this distinction calls for a qualitatively different intervention and response (Wood and Devine forthcoming).

A number of donor-funded programmes currently address the needs of the extreme poor as opposed to the poor. DFID for example funds four major programmes, namely:

- The Chars Livelihoods Programme (CLP) which combines geographical and household targeting. Geographically, the programme concentrates its efforts on the *char* areas in the northern districts of the country. And within those *chars*, the programme benefits 55,000 extreme poor households selected on the basis of three criteria: residence (having been resident on an island *char* for at least 6 months); landlessness (owning no homestead land and having no access to agricultural or productive land); assetless (not owning income-generating assets with a value exceeding Tk 5,000).
- Challenging the Frontiers of Poverty Reduction is a programme managed by BRAC, the world's largest NGO. It operates in 15 districts in the north, especially the *monga*⁴-prone areas, and targets 100,000 ultra-poor women beneficiaries.
- The Urban Partnership for Poverty Reduction programme seeks to improve the livelihoods of 3 million urban poor through partnerships with local government and the private sector that lead to economic empowerment, improved services and increased voice.
- The Economic Empowerment of the Poorest (EEP) is the latest of the DFID-funded programme on extreme poverty. It targets the bottom 10% of the poor and is working to lift over 1 million people out of extreme poverty and ensure sustainable livelihood for them by 2015. The programme is committed to both transactional and transformational aims.

Together with other programmes in Bangladesh⁵, these initiatives have been drawing increasing attention the specific challenges of extreme poverty. While there is no common definition of extreme poverty (besides their classification of lying below the national lower poverty line⁶), there is growing

⁴ *Monga* refers to seasonal hunger that occurs in the northern Bangladesh every year from mid-October to mid-December. *Monga* contributes to extreme poverty.

⁵ Other notable programmes include the SHOUHARDO programme funded by USAID and the WFP funded VGD programme. A number of initiatives have also been adopted by MFIs like Grameen Bank, ASA, BRAC and PKSF, which combine safety net type interventions with flexible microfinance products.

⁶ The Bangladesh Bureau of Statistics uses two poverty lines and both use a cost of basic needs methodology. The lower poverty line equates to the food poverty line (i.e. costs of acquiring a food

awareness of the need to give policy recognition to the fact that 'being poor' and 'being extreme poor' are not coterminous. During a recent international conference organised by EEP⁷, Wood and Devine (2009) argued for an understanding of extreme poverty that went beyond the poverty line measurement. They noted that

By definition the extreme poor have extremely limited, if any, real prospects for social and economic mobility. Their poverty, again by definition, is not transitory but persistent and likely to be inter-generational. Poverty is increasingly understood as generated and reproduced through social relations found at household, community, local, national and international levels resulting in: a lack of basic assets; acute undernutrition especially among children; chronic health related problems; exclusion from key social services, safety nets and market opportunities; vulnerability to climate change impacts; exposure to risk and stresses; low levels of self esteem; and absence of effective political voice. Extreme poverty shares all these systemic characteristics but in their most severe forms, additionally reflecting both idiosyncratic origins and geographical causation.

While Bangladesh can be considered to have a progressive social protection commitment, programmes tend to be scattered, short-term in duration and limited in scale. The experience and dynamics of extreme poverty is on the other hand intense and severe, long term (even inter-generational) in duration, and accumulative. Social protection is crucial in any strategy seeking to address the needs of the extreme poor. For this reason, there have been many calls asking for an increase in the numbers and coverage of programmes. At EEP, we fully support these calls but want to advocate a further and more radical principle, i.e. a sustainable commitment to social protection for the extreme poor ultimately requires a new political settlement in society around social policy. Reaching this appropriate settlement requires a deliberate political debate about the intersections between poverty, growth, rights, responsibility and redistribution. This plea, directed primarily to the country's political establishment, could of course be adopted globally and addressed especially in times of financial crises to the world's leaders.

4. Extreme Poverty and the Impact of Global Crises

A key part of DFID's global portfolio, CLP is one of the major development programmes tackling extreme poverty reduction in Bangladesh. Based in five districts of the Jamuna River in North-West Bangladesh, CLP focuses on improving the livelihood security, reducing the physical vulnerability and regularising income streams of targeted extreme poor island char

basket containing the nutritional requirement of 2122 k.cal. per person per day) and is used to identify the 'extreme poor', the upper poverty line considers non-food items and is used as a cut-off point to distinguish poor and non-poor.

⁷ See www.extreme-poverty.org

households. The overarching outcome of CLP is to halve extreme poverty in the riverine Jamuna chars by 2015.

In its strictly economic sense, the extreme poor comprise the bottom 10% of households. However, reflecting the concentration of poverty in the region⁸, in the CLPs working area this represents 30% of the char community. Following the targeting criteria mentioned above, average pre-entry households have less than Tk.2000 in household assets and monthly income, and spend up to 75% of this monthly income on food consumption alone. This income poverty is also reflected in the nutritional status of these households and needs to be seen in the context of national nutritional levels, which indicate that a third of the population is malnourished and nearly 50% of Bangladeshi children are underweight.⁹

Since its inception the programme has developed its own approach to targeting extreme poverty in one of the most vulnerable regions of the country. Taking a 'household by household' methodology, the CLP pathway consists of an eighteen month intensive package of asset transfer grants, training, improved infrastructure, seasonal employment opportunities, diverse cash safety nets and improved access to health, education and market based opportunities. A key element of the pathway is asset transfer: the provision of significant assets (quasi-cash) to extreme poor households. It is expected that once a household has completed the programme they will have moved out of extreme poverty and have a foundation of assets, related skills and resources. Since 2005, 55,000 households (approximately 225,000 women, children and men) have received the entire CLP package over four separate phases.

Matrix 1 presents the summary of the key features of CLP.

Matrix 1: Key Features of CLP

	CLP Core Beneficiaries	All CLP Beneficiaries
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⁸ Recent work by the Bangladesh Bureau of Statistics on poverty mapping in Bangladesh highlights the increasing significance of new spatial dimensions of poverty in Bangladesh. Upazilas with greater incidences of poverty are therefore also likely to be more prone to natural disasters; have lower average agricultural wage rates, show relatively lower levels of educational achievement, have limited access to markets and have higher concentrations of extreme poor populations (BBS 2009). CLP areas display these characteristics.

⁹ http://hdrstats.undp.org/2008/countries/country_fact_sheets/cty_fs_BGD.html.

Beneficiary Numbers:	At least 55,000 households	Up to an estimated one million people
Geographical Area:	Live only on designated island chars of the five districts of the northern Jamuna	Live throughout the programme area of the five districts of the northern Jamuna
Targeting:	<p><u>Household:</u> Direct CLP targeting by component activities using strict criteria and with further verification of the beneficiaries selected.</p> <p>Principle criteria for selection – landless and assetless.</p>	<p><u>Community:</u> Indirect CLP targeting by component activities</p>
Type of Assistance:	Grant	Mixed
Assistance Given:	<p>Given to all 55,000 households:</p> <ul style="list-style-type: none"> • Transfer of investment capital • Monthly stipend • Agricultural inputs • Livelihoods training • Livestock vaccinations • Homestead plinth raised • Sanitary latrine • Access to shallow tube-well • Group formation • Social development curriculum • Vouchers for health services • Homestead garden inputs and training • Some households may also receive other services which are offered to 'non-core' beneficiaries 	<p>Households receive at least one out of:</p> <ul style="list-style-type: none"> • Access to institutional microfinance • Membership of a Village Savings and Loans Association • Development of productive skills and links with suppliers and buyers • Cash-for-work employment • Homestead plinth raised • Sanitary latrine • Homestead garden inputs and training • Access to shallow tube-well • Access to private sector livestock services ('Paravets') • Access to social care (emerging programmes in health, education and governance)

Source: Official website of CLP: www.clp-bangladesh.org

CLP has achieved some considerable milestones in reducing extreme poverty in the Jamuna chars. Families recruited early in the programme are showing significant economic improvements, with 90% of these households having assets valued at over Tk. 25,000 and their respective incomes also nearly doubling (Marks and Islam 2009). The knock-on effects of household economic improvements and empowerment have been considerable. Despite CLP not undertaking a specific nutrition component, current research is indicating that there are lower levels of chronic undernutrition in children from households recruited earlier in CLP (Mascie-Taylor *et al* 2009).

4.1 Saving Char Assets: The CLP 'Bail Out'

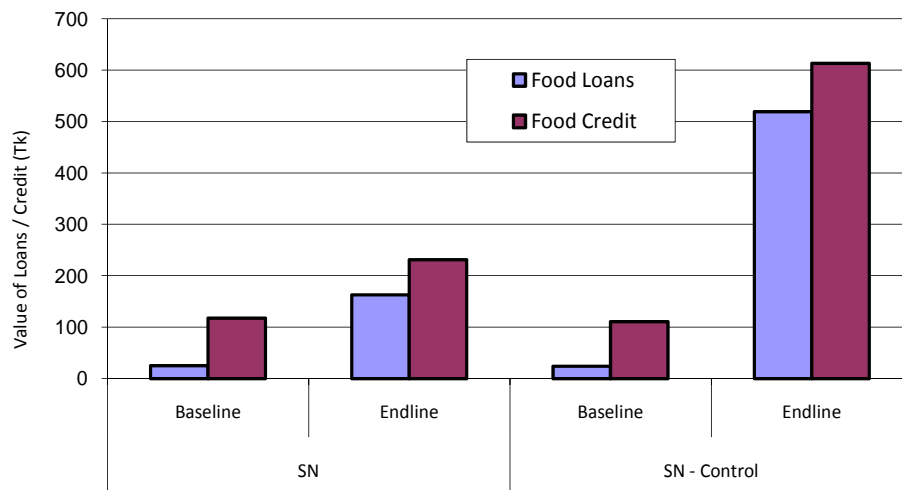
In spite of these successes CLP has faced major challenges in ensuring that beneficiary households climb and maintain their trajectory out of extreme poverty. While idiosyncratic household shocks can be stabilised and insured within community; covariate shocks which affect the wider community such as natural disasters or rising inflation often cannot. Indeed, when faced with a prolonged shock, households with limited resources will undertake a series of coping strategies to survive. Recent work on the impact of poor people's experiences of food, fuel and financial crises (Hossain *et al* 2009), as well as more detailed analysis of households recovering from floods (Wright 2009) all reveal similar coping strategies patterns. Poor households will tend therefore to reduce household consumption, deplete savings and sell their assets. This was found to be the case also in the CLP areas. So just as global financial institutions have been bailed out by many of the world's governments recently, over the last two years CLP has been forced to respond to natural disasters and the impact of rising global food prices to ensure that supported households are buffered against these covariate shocks.

A clear example of this took place in August 2007 when, moving outside its mandate, CLP undertook a huge humanitarian flood relief operation following major floods in North-West Bangladesh. Within days of the flood peak, 6.3 million person days of food were delivered by CLP partners across the chars, a further two million water purification tablets were distributed and many people and livestock were rescued. When floods of this scale occur in North-West Bangladesh they are highly destructive; not only were nearly 900,000 acres of crop and cropland destroyed but so with them huge employment opportunities for households entering the lean *monga* period. Following pleas for assistance from the Government of Bangladesh, CLP scaled up its regular *monga* related cash-for-work programme, expanding its work area from two to five districts and adding one million person work days to the employment scheme. At the household level, every worker on the programme was also offered the option of receiving up to Tk.500 advance against their wages to offset the flood related delay in the beginning of the work programme. This difficult period also saw active core CLP households being offered an advance of two months worth of their regular cash stipend. A further safety-net was also implemented which saw households that could not participate in the local CLP cash-for-work programme being offered a 12 week safety net grant to support them through the period.

Following these initiatives, research showed that over 80% of the cash-for-work advance was used directly on consumption expenditure, and only 23% of cash-for-work households sold assets in distress compared to over 40% of non-participating households over the same period. In a similar fashion to the fire sale price of stocks in the following year's global recession, all households who made distress sales in this period sold assets at approximately 80% of their normal market value (Conroy and Marks 2008). For the more vulnerable cash-for-work safety-net households, during the 12 weeks they received the grant,

they took only a third of the food credit and a quarter of the food loans that control households sought or received (Figure 3).

Figure 3: Food Loans and Food Credit Levels of cash-for-work safety-net households in the 2007 post flood / *monga* period



Source: Conroy and Marks (2008)

All of these measures were put in place not only to protect and smooth consumption during a major natural crisis but to mitigate the need for households to sell their assets. However, despite the successes of its humanitarian relief programme, advance wage payments and stipends and increased employment opportunities (again similar to the government interventions that have taken place globally in the wake of the 2008 recession), CLP households, like many across the world, were further hit by inflation and the rising price of one of their most essential commodities: rice. This again takes us back to one of the key arguments in this paper regarding the compounded nature of crises, especially for poorer households in poorer societies.

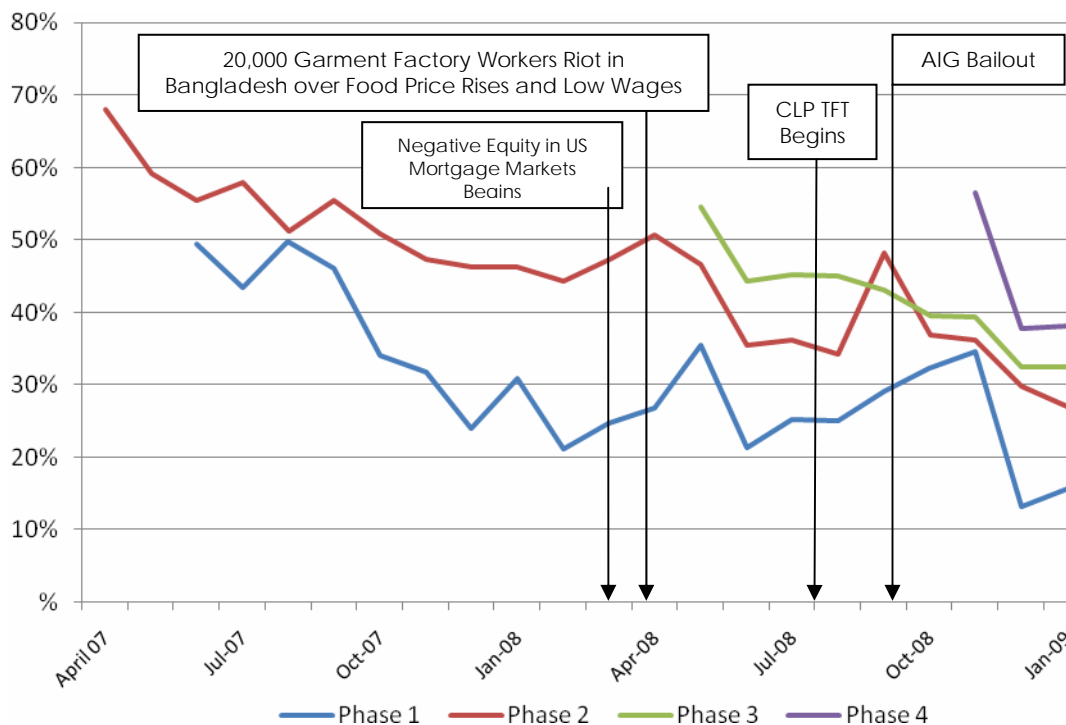
4.3 Global Food Prices

Global food price hikes in 2008 dramatically affected the price of rice in Bangladesh. Sparked by ever increasing fuel costs and resultant curbs on exports by major rice producers, illicit smuggling of rice over Bangladesh's borders with India put further pressure on domestic rice prices. While these price hikes could be absorbed by wealthier members of the community¹⁰,

¹⁰ This statement however needs to be treated with some caution as there is growing evidence of middle class people in Bangladesh struggling to survive (Hossain *et al* 2009)

the impact for extreme poor household's meant dramatic reductions in household purchasing power, reduced terms of trade between households and shopkeepers and ultimately even less rice on the plate of extreme poor Bangladeshis.

Figure 4: Percentage of households who reported eating a smaller portion of food due to a shortage of food in the previous seven day period over CLP phases



Source: Adapted from Conroy and Vignon (2009)

Although remote and isolated, char households shared with many others in Bangladesh and across the world the impact of food price increases with staple foods taking up even higher proportions of their overall expenditure. Indicative of this impact on char families was the increase in households (from a steady decline) stating they were food insecure from March 2008 (Figure 4). The combination of increased rice prices, general food insecurity and the approaching *monga* season in effect created a 'perfect storm' or 'poverty cauldron' for these economically vulnerable households. CLP again had to act to arrest the potential mitigation of its work in reducing extreme poverty in the Jamuna chars. As such, in August 2008 CLP began a monthly cash Temporary Food Transfer (TFT) for those households still active in the programme. The TFT was directly linked to the local price of *mota chal* (coarse rice), with the total amount adjusted according to the number of

women and children within the household. Since September 2008, the export price of rice per tonne has fallen dramatically globally; as this decrease gradually trickled down and the price of rice returned to pre-crisis levels, the TFT was phased out by CLP.¹¹

5. Conclusion and Reflections.

The CLP case study illustrates how timely and responsive support to extreme poor households can have an immediate impact on their ability to cope with crises and continue to address their wellbeing needs. Poverty analysis in Bangladesh is perhaps guilty of exaggerating the prospects of poorer households moving out of poverty. Poor people of course do achieve better quality of life but improvements tend to come about slowly and over time. In most cases they are interspersed with abrupt declines triggered by shocks, hazards and stresses, which are often not captured by conventional poverty estimates. Some people manage to overcome the declines; for others the initial decline kick starts a gradual fall into more extreme forms of poverty and increased vulnerability (Davis 2006). Extreme poor households have, by definition, very little room for manoeuvre when it comes to falling into more extreme forms of deprivation. Their lives are quite literally 'hanging on a thread'. For this reason, the need to increase protection for the extreme poor as a way of partially mitigating the impact of crises, global or otherwise, is primarily a moral responsibility. Research suggests that poorer countries have been hit hardest by the global financial crises and within these, it is the most vulnerable and poorest who have suffered most. The best predictions we have indicate that the impact of the global crises is likely to be stronger in 2009 than it was in 2008 for poorer communities. We may therefore not yet have seen the full impact of the crisis – even in CLP areas.

The analysis presented here leads to three main reflections which in turn trigger immediate policy conclusions.

First, the ties between Bangladesh and the wider global political economy are profound and far-reaching. While this has undoubtedly brought important benefits to Bangladesh, it has placed the country in a globally vulnerable and dependent position. If countries like the UK claim that the solution to solving their domestic problems arising from the global crisis, lies in global decisions and strategies, the same principle holds – perhaps more so - for countries like Bangladesh. The G 20 summit held in London during April of 2009 pledged \$50 billion in additional lending to developing countries. This is clearly an inadequate amount and pales in significance to the amounts used to bail out the economies of developed countries. It also has to be offset against the increasing ODA cuts that most donor countries are now rolling out. In any case, the \$50 billion must be used in its entirety to support short-

Qualifying households included those without a single economically productive member.

term protection programmes in poorer societies. Even then, the amount pledged will not be enough. So perhaps it is time to call for a new global political settlement in which sustainable support for the extreme poor is put firmly at the centre of the agenda. This new settlement would therefore commit to at least safeguard existing ODA commitments to social protection, health and education; offer funding support that will guarantee medium and longer term social protection for the world's poorest; ensure that the global 'rules of the game' affecting key areas such as financial flows, trade and remittances are rewritten in a way that helps developing countries become more resilient and better prepared to deal with crises.

Second, Bangladesh itself needs to extend its current commitment to social protection and ensure that the resilience of its population to deal with crises is strengthened. The current financial crisis may be global but there are important choices to be made at national levels. As noted above, one of the key EEP advocacy messages is that Bangladesh needs to establish a new political settlement around social policy if it wants to make sustainable inroads into tackling extreme poverty. The current global financial crisis highlights the urgency and relevance of this message, effectively putting it to the test. Some might argue that Bangladesh is not in a position to engage with such a discussion given its overall conditions of poverty and standards of living. Yet, the country has experienced steady growth, low inflation, significant inward remittance flows from migration and export of labour, expansion of its infrastructure and the discovery of substantial gas reserves. It has also made considerable progress in a range of human development indicators. Bangladesh is therefore a very dynamic society despite its persistent large scale poverty. Our view is that the country is well placed to have the debate required to establish a new political settlement in which the needs of the extreme poor are again prioritised. At the moment Bangladesh has low national capacity for social protection programmes (Gentilini 2009) and this needs to be addressed in order for the prospects of a new political settlement to become a reality. Second, social protection programmes in Bangladesh mostly aim to strengthen the capacity of poorer households to cope with risks and hazards. In the medium and longer term, Bangladesh needs to introduce strategies that help reduce *ex ante* risks for households. The ability to do this is tied very directly to our previous point on national capacity.

Third, tracing the impact of the global financial crisis on the lives of the poorest is a complex task because of the intricate ways crises present themselves in the lives of poor people. The most vulnerable in society rarely have sporadic or time constrained crises; instead their lives are embroiled in ongoing and cumulated crises. The lines between the different global crises that we can identify here in the West appear a lot more blurred in the lives of the poorest. Perhaps therefore, the greatest impact of the global financial crises is that it has eroded the already weak resilience of poorer people to deal with the shocks and hazards that confront them on a regular basis.

Initiatives like those supported by the CLP help mitigate against immediate negative impacts. For those whose lives hang by a thread however, patchy or sporadic protection merely postpones the inevitable. In terms of the extreme poor, the global financial crisis therefore has helped refocus attention on the importance of building resilience amongst the most vulnerable – a task that requires commitment over a long period of time.

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