



# Bangladesh

## Effects of the Financial Crisis on Vulnerable Households

**Background:** This brief is part of a series of five presenting the findings of case studies on the effects of the global financial and economic crisis on households' food security, conducted in March and April 2009.<sup>1</sup>

### Overview

Bangladesh, with a population of more than 150 million, is a low-income, food-deficit country. Over 40% of the population is children. Three-quarters of Bangladeshis live in rural areas. The country sits within the world's largest delta, making it extremely vulnerable to floods, and cyclones.

In the past decade, Bangladesh has made impressive economic and social progress towards achieving some of the Millennium Development Goals (MDGs), despite repeated natural disasters and external shocks. Bangladesh has met the MDGs for gender parity in education and has made impressive progress towards achieving universal primary enrolment. According to the Bangladesh MDG mid-term report of 2007, the net enrolment ratio in primary education was 87%. The average GDP growth over the last six years was over 6%. Although poverty fell from 57% of the population in 1990 to 40% in 2005, challenges remain in eradicating extreme hunger and malnutrition.

Indeed, recently, the global food and fuel price crisis in 2008 and the Cyclone Sidr in 2007 have tested the resilience of the Bangladeshi people. A nation wide survey conducted by WFP, UNICEF and the government in December 2008 to assess the impact of high food prices on the population revealed significant food insecurity (one in four Bangladeshi) and increased severe (stunting, underweight and wasting) malnutrition rates.

The global financial crisis could compound this situation. The economy is indeed increasingly exposed to global shocks as a result of increased openness to the global economy. The contribution of trade (export and import) increased significantly since 2001 from 33.4% of the gross domestic product (GDP) to 43.4% in 2008.

### Macro-Economic Effects of the Global Financial Crisis

- ✓ Bangladesh is affected by the global financial crisis through the reduction of remittances, migration, ready-made garments and agricultural exports (shrimp and tea). The economy is heavily dependent on migrants' earnings in the Gulf countries and Western countries. Bangladesh is in the fifth position among the top remittance recipient countries in the world. The contribution of remittances more than doubled from 4% in 2001 to 10% of GDP in 2008. Exports take up 20% of the GDP. Exports of ready-made garments (RMG) represent 80% share of total exports. Almost half of the exports go to the Europe, while 25% goes to the United States.
- ✓ The volume of trade decelerated by 5.3% between July-December 2008 against an increase of 3.4% during the same period in 2007.<sup>2</sup> A further decrease of 7.1% was observed in January 2009, compared to January 2008. Export orders of RMG fell by 5% in January and 17.6% in February 2009, with lagged effects on actual RMG exports expected 3-4 months later. Fish exports decreased by 16% on average in July-December 2008 compared to July-December 2007. Jute exports also decreased by 17% over the same period and by 19.8% in January 2009 compared to January 2008.
- ✓ Migration decreased by 40% in January-March 2009 compared to the same period in 2008. Approximately 8,000 Bangladeshi workers abroad were deported in February 2009, a near doubling compared to the previous year.
- ✓ Although remittances are still high at trend levels, there are signs of deceleration since February 2009, with a drop of remittance flows by 8.7% compared to January.

### Preliminary Effects at Household Level

- ✓ The economic down-swing is affecting households' livelihoods. Households seek additional work opportunities, mainly casual labour due to low purchasing power and reduced job opportunities.
- ✓ The proportion of job losses is estimated at 10%. On this basis, 300,000 new unemployed people have most likely been released onto the job market in the last 6 months. The livelihoods of 1.09 million individuals could be at stake, with subsequent risks to health care, food intake, education, debt and other vital services.
- ✓ Focus groups reported a significant decline in incomes, as a result of the fall in foreign currencies (dollar and pound), commodity prices, reduced casual labour opportunities and job losses in foreign countries. Women more frequently rely on remittances. Significant declines in production and prices have led to a decrease in unskilled wage rates in the fish/shrimp processing hatcheries and garment factories. The amount and frequency of remittances decreased in the last 6 months due to job cuts abroad, foreign

<sup>1</sup> Analysis has been undertaken in Armenia, Nicaragua, Ghana, Bangladesh, and Zambia.

<sup>2</sup> The volume of trade is proxied by export and import cargo handled in the port of Chittagong.

currency depreciation and high expenses of migrants in host countries. The reported proportion of returnees is between 10-20%.

- ✓ With the recent decline of food prices, the share of household's budget spent on food has decreased to 62% in December 2008 and 57% in March 2009. However, the food budget share is still higher than in 2005 (52%).
- ✓ The share education and health expenses increased (from 6 to 7.2% and from 4.4 to 5.2%, respectively) - not only as a result of the decrease of the share of food expenditure, but also because of other costs related to education (materials and transport) and health (reduction of health services in tea estates, medicines and fees). Indebtedness remains high, absorbing 10% of households' expenditure.
- ✓ Households are adopting various coping strategies. Most commonly households are reducing the number of meals and diversifying their income activities in order to bring in more revenue. Income diversification could lead to child labour or less care provided by mothers to children. Based on the discussions, the main priority needs of households are: 1) access to employment generation activities; 2) financial support; and 3) price cuts in basic needs to mitigate the cumulative impacts of the global food and financial crises.

## Future Outlook

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- ✓ The economy is just starting to feel the impact of the ongoing financial crisis and significant downside risks exist in the coming months. Projections by international financial organisations converge on the fact that GDP growth will be lower (ranging from 4.5 to 6.0%) than the 6.5% initially projected for the fiscal year (July 2008-June 2009).
- ✓ Against the backdrop of the deceleration of export growth and remittances, foreign reserves will contract and could consequently weaken the food import capacity of the country and depreciate the exchange rate of the Taka against major currencies. Currency depreciation could lead to some losses of real income and purchasing power through inflation driven by imported goods. An expected increase in government spending for rescue packages (including tax breaks, cash subsidies and food rationing programs) could lead to monetary financing of increased fiscal deficits beyond the 4.99% target, fuelling inflation.
- ✓ The current estimate of about 0.3 million job losses in the last 6 months could double in the coming months as a result of increased lay-offs in export-led sectors and a further contraction of migration. As households' expenditures are not back to their 2005, there are serious concerns about health care, food intake, education, debt and other vital services and their implications in terms of food security and nutrition.
- ✓ Focus group discussions revealed a bleak perception of the evolution of the situation. Households expected that it will take 1 to 2 years to recuperate their income level of 6 months ago. Such a pessimistic outlook is due to the long lasting impact of combined shocks endured since 2007.

## Ongoing Responses and Recommendations

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- ❖ On the macro-economic side, the Bank of Bangladesh eased the lending capacity of the commercial banks to the productive and employment intensive sectors by cutting interest rates and relaxing the conditions for opening fresh letters of credit from 90 to 150 days. Furthermore, the central bank monitors and manages the currency composition of foreign exchange reserves. The government will also expand the open market sale program to provide subsidized rice to all workers in the RMG sector.

In addition to these efforts there is an urgent need to:

- ❖ Expand and accelerate social protection programs (e.g. cash for work) targeting households most affected such as female-headed households, agriculture and non-agriculture wage earners and casual laborers. Specific targeting of female-headed households reliant on remittances should be considered in specific areas such as in Sylhet division.
- ❖ Accelerate the implementation of the Annual Development Plan (ADP) in investing more in labor intensive income generating activities (e.g. basic infrastructure, water supply, sanitation, rural roads and electricity).
- ❖ Accelerate investment to increase productivity in the agriculture sector to face the lack of arable land and counter production disincentives such as the decrease of agricultural commodity prices.
- ❖ Monitor the evolution of the macro-economic and sectoral performance. Strengthen the household-level monitoring by establishing the linkages between the macro and micro-levels and by building on existing systems that monitor remittances, migration flows, wage rates, food and livestock prices, nutrition indicators.
- ❖ A follow-up assessment could be envisaged in the second-half of 2009 with partners to review the depth of the impact of the global financial crisis on household food security and livelihoods.

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**How was the assessment done?** The macro-economic review was based on secondary data analysis and interviews with key informants from the Governments, development partners, NGOs, research institutions and leading members of the private sector. To understand the impact at household level, 40 focus group discussions were carried out between March 22 and April 4, 2009, in areas with high concentration of migration and dependent on remittances in the North East and South East, areas with high concentration of agricultural labor and cash crops such as tea estates in the North East and shrimp farms in the South West and areas with high concentration of non agricultural unskilled labor (e.g., garment industry) of the two biggest cities Dhaka (capital city) and Chittagong.