



## Executive Brief Bangladesh

### Effects of the Financial Crisis on Vulnerable Households

Follow-up case study, March 2010

**Background:** This brief is part of a series of five follow-up studies on the effects of the global financial and economic crisis in the same case study countries, assessed 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 are 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.
- ✓ The economy of Bangladesh did not escape the impacts of the back-to-back global fuel, food and financial crises of 2008. An assessment of the impacts of the 2008 global food price crisis found that 25% of households were insecure in end 2008<sup>2</sup>. The global financial crisis that peaked up in September 2008 further tested the resilience of households to recurrent natural adversities and the global food price crisis. As of March 2009, the global financial crisis resulted in a deceleration of trade and migration flows although remittance flows remained high, accounting for about 10% of GDP<sup>3</sup>. The economic slowdown resulted in concerns that 300 thousands jobs could be lost in export-led sectors, in particular in the garment sub-sector. Affected households had started to cope by reducing the number of meals, diversifying their income sources.

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

- ✓ The macro-economic performance of Bangladesh was affected mainly by the low performance of external trade during the fiscal year (FY2010). The contribution of trade (export and import) remains high at 43% of the gross domestic product (GDP) in end-2009. The contribution of remittances remained stable at 11% of GDP in end-2009 as a result of increased repatriation of migrant returnees' savings. Foreign direct investment which accounts for less than 1% of GDP, decreased by 67% while net ODA inflow increased by 35% in July-December 2009 compared to the same period in 2008. The economy is facing an increased general inflation since January 2010, driven by double digit year-on-year food inflation.
- ✓ The deterioration of trade performance observed in early 2009 is confirmed. The total value of both the exports and imports declined by 6.2% and 3.6 % respectively in July-December 2009. This is against an increase of 19.4% and 22.4%, respectively, in July-December 2008. During July-December 2009, exports of knitwear and woven garments declined respectively by 7.2% and 8.0% compared to the same period in 2009, while exports of frozen food (mostly fish and shrimp) decreased by 17.9 % (which follows a 15.9% decline recorded during the previous year). However, exports of jute goods and of raw jute increased respectively by 39.6% and 28.2%.

#### Update on the Effects at Household Level

- ✓ Households paid a dire cost on the economic downswing, through mainly job losses, reduced incomes and low cash commodity prices. The most frequently reported increase in unemployment rate in a year is 10-15%. The findings of March 2009 had projected a 10% increase in the unemployment rate.
- ✓ Overall from March 2009 to date, the livelihoods of at least 345'000 individuals (i.e. 265'300 households) have been affected by job losses (170'000) and reduced outmigration (by 175'000). Remittance earners, daily labourers and shrimp farmers are the most affected by the global financial crisis.
- ✓ Job losses in the export-led sectors were contained to around 100'000 against the forecast of 300'000 in March 2009. However, focus groups reported that many companies kept part time jobs or make employees work longer hours than they are paid. There is a significant drop in the outflow of migrant workers. During 2009, about 70'000 migrants returned home, repatriating their savings. Outmigration decreased by 44% during the last six months of 2009, compared to the same period in 2008.
- ✓ Remittances earners interviewed reported deep decreases in frequency (-50%) and amount (-40%) of remittances received from their relatives who managed to stay abroad. According to the majority of focus groups, remittance has become the second or third income source, behind agriculture and daily labour. Several focus groups reported that remittance contributes to just above 20% of remittance earners' incomes, compared to 80% a year ago.
- ✓ The share of household's budget spent on food has slightly increased to about 60% of total expenditures in March 2010, from 57% in March 2009. The share spent on education has decreased by about 20% due to increased coverage of the provision of free school books to primary school and secondary school students. Reportedly, primary and secondary school attendances improved consequently by 10% from last year. Unlike other livelihoods, the burden of debt remains particularly high on shrimp farming households who

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

<sup>2</sup> WFP, UNICEF, IPHN, *Impacts of Recent Shocks on Food Security and Nutrition in Bangladesh*, Joint Assessment, Dhaka, March 2009.

<sup>3</sup> WFP, *Impacts of the Global Financial Crisis, Bangladesh Case Study*, April, Dhaka.

faced the collapse of the shrimp export sector. Most urban focus groups reported an increase of the share of transport, utilities and rents in total expenditures by 10-50 percent during the last 12 months.

- ✓ Households keep adapting their coping strategies, seeking additional work opportunities (involving women and children as casual labour). They are foregoing less the number of meals (as in 2009), but are now saving on the quality: cereal consumption is maintained at the expense of protein, dairy and fat. Shrimp farmers are particularly involved in taking additional loans and cutting down medical expenses.
- ✓ While appreciating the increased contribution of the assistance provided by the government and its partners in meeting their essential needs, interviewed focus groups emphasized that access to employment generation activities; health care, water and sanitation facilities; infrastructure (irrigation systems, roads, power and gas) should be strengthened to help them overcome the difficulties they are facing.

## Future Outlook

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- ✓ Projections by international financial organisations converge on the fact that GDP growth will be lower (ranging from 5.2 to 6.0%) against the actual growth of 5.9% in FY2009). However, economic growth is expected to regain momentum in the second half of 2010.
- ✓ Although there are signs of improvement in trade indicators and significant increase in foreign reserves, the recent deceleration of export growth may lead to a contraction of foreign reserves and thus 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. In addition to the current accommodative policy stance of the central bank, 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 5.0% target, thus fuelling inflation.
- ✓ With at least 345'000 individuals whose livelihoods have been affected within a year and current increased food inflation that led to an increase of households' expenditures on food, food security and nutrition remains a serious concern.

## Ongoing Responses and Recommendations

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- ✓ In response to the global financial crisis, the Government of Bangladesh has further expanded its social safety net system (VGF, VGD, open market sales, 100 days work program, etc.) designed to address mainly transient food insecurity. In particular, the government and NGOs further expanded the coverage of partial free education program and revised the government salary scale upward in 2009. Substantial effort is also made to support productive sectors through stimulus packages, investment in infrastructure and agriculture, interest rate cuts and improved macro-economic monitoring.
- ✓ Besides partnering with the Government on social safety net programs, WFP has also initiated a cash transfer program in 2009 to mitigate the effects of the combined global food, fuel and financial crises on the most affected households.
- ✓ However, the importance of job losses and the great number of migrant returnees, underscore the need for rapid job creation in services, manufacturing and agriculture sectors to mitigate the adverse impacts of the global financial crisis. Further efforts can be made to:
  - Improve and expand the health and nutrition care coverage to the most vulnerable households such as casual labourers, shrimp farmers and remittance earners.
  - Accelerate the implementation of the Annual Development Plan (ADP) in investing more in labour intensive income generating activities (e.g. basic infrastructure, water supply, sanitation, rural roads and electricity) through cash for work.
  - Consider building the skills of candidates to outmigration to reduce their vulnerability to job losses in host countries.
  - Accelerate investment to increase agricultural productivity to face the increasing population pressure on arable land. Supporting productivity growth in food and cash crop production, fish/shrimp farming and livestock rearing is expected to partly absorb migrant returnees and less-skilled domestic workers who have lost their jobs in the face of the financial crisis. The Annual Agricultural/Rural Credit Policy and Program initiative of the Bangladesh Bank is a step in that direction, assuming it is sustained.
  - Establish a food security and market monitoring system, building on existing systems that monitor remittances, out-migration flows, flows of returnees, less-skilled wage rates in nonfarm and farm activities, staple food, cash and livestock prices, nutrition indicators, etc.

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**How was the assessment done?** The macro-economic review was based on secondary data analysis. To understand the current effects of the crisis at household level, 40 focus group discussions were carried out in March 2010, with the same livelihoods and in the same areas where interviews were held in March 2009.