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EXECUTIVE SUMMARY

The purpose of this preliminary analysis and literature review of the socio-economic determinants of Bangladesh’s ability to meet the Millennium Development Goals (MDGs) is to contribute to a common understanding amongst participants in the ‘Bangladesh Big Picture’ Study of the main issues that will have to be considered and the approach that should be pursued in the analysis.

35.6% of the population of Bangladesh lies below the poverty line. In the past 25 years, there has been an increase in per capita income, and improvements in indicators of life expectancy, child mortality, fertility and school enrolment. However poverty reduction has been slow (although there are indications that human poverty has declined at a faster rate than income poverty). Income distribution is becoming increasingly unequal and there are signs that the extreme poor are becoming increasingly marginalised from the benefits of economic growth. Long term growth rates of 7-8% are possible and, if achieved, would lead to an increase in GDP per capita from current levels of $295 to $650 by 2010 and $1200-1300 by 2020.

The framework used in the analysis suggests for the MDGs, there are four areas (or strategies) where progress must be made: growth of assets, incomes and consumption; empowerment of the poor, enabling them to influence the structure and operations of public and private institutions; greater equalities of opportunity for poor people to build up their assets and generate livelihoods and; security to counter physical and economic vulnerability that drives people into poverty or threatens the sustainability of their exit from poverty. Ten determinants that will influence the achievement of these strategies will be key:

1. Globalisation and trade
If Bangladesh is to thrive amidst the evolving global economic forces, and the poor and marginalised groups are to capture the benefits from globalisation, it is essential that appropriate mechanisms are put in place to enable the efficient operation of the private sector and to ensure that the country’s resources can be utilised effectively. This will include continued trade liberalisation that reduces distortions which include an anti-export bias caused by the structure of trade barriers.

Impressive growth in the garments manufacturing sector can not be sustained as the sector has become saturated and the MFA phase-out will lead to a deterioration in the trade preferences Bangladesh currently receives. Bangladesh’s comparative advantage lies in labour intensive manufacturing and agro-processing. Future development of the manufacturing sector will have to be export-led and will require productivity increases through skills development and improved nutrition and health. Other impediments to FDI and a competitive industrial sector that must be addressed include governance problems, infrastructural constraints and the dominance of inefficient state owned enterprises (SOEs).

2. Macroeconomic determinants
The macroeconomic determinants of Bangladesh’s performance in achieving the MDGs share close links and overlaps with other elements included in the review, including good governance. This part of the analytical framework has not yet been well defined. However it is clear that strong economic policy management will be an
essential contributory factor to rapid the economic growth that is a necessary condition for poverty reduction.

3. Demographic change and urbanisation
Although Bangladesh’s population growth rate has declined in recent years, the current population, estimate at 126 million in 1998 will grow by 60 million over the next 30 years. As a result of demographic dynamics, the dependency ratio is falling, which could be of benefit to the population so long as improved levels of education and literacy are achieved. Bangladesh is the most densely populated country in the world with the exception of city states.

Growing urbanisation, the growing economic importance of peri-urban areas and secondary towns and growing labour mobility are important dynamics which imply an urgent need for investments in municipal services to ensure that the poor have access to market opportunities. This will require significant investments. In rural areas infrastructural improvements will also be essential to enable gains from switching from the farm to the non-farm sector.

4. Environmental constraints
Environmental problems include frequent natural disasters, industrial pollution, poor health and sanitation, arsenic in the groundwater, deforestation, changes in climatic conditions and overall deteriorating habitats. Global warming poses an immense threat and will increase the risks of cyclones, tidal surges and seasonal flooding. This will significantly reduce agricultural production over the long-term.

The poor are most vulnerable to the effects of these environmental changes due to their high level of dependence on environmental resources, and their lack of access to formal insurance mechanisms. Addressing these problems will require a sound, modern information system, improved and more cost-effective monitoring and requisite institutional changes.

5. Access to markets
Access to well functioning markets is essential to enable the poor at access assets and for them to grasp economic opportunities. The presence of highly imperfect, socially embedded markets alongside the extreme scarcity of resources in Bangladesh points to an urgent need for mechanisms to improve the functioning of and access of the poor to markets. Market imperfection is primarily caused by the history of excessive regulation over the economy, a tradition of price fixing in many areas which has lead to rationing in resource allocation and the significance of inter-personal relationships in the business community which creates market segmentation and barriers to entry.

Improved governance is essential to creating a more supportive environment for business and the development of wealth-creating private sector activities which supports competition and governs resource allocation. Other impediments to private sector activity include problems relating to land ownership, undercapitalised private banks, an unpredictable business environment and problems of law and order. The privatisation programme, which has been stalled by vested interests and political interference, must be accelerated, alongside the creation of a modern regulatory framework for the private sector.
6. Socio-political changes
Bangladeshi society is becoming increasingly pluralistic, with progressive support for liberal, right-based citizenship. However there is little consideration of the substance of policy in political engagement and a culture of intolerance and confrontation continues to pervade the political system. Social capital is predominantly based on kin, lineage status and regional and sub-regional identities. Power is concentrated within a small elite which generates systems of patron-clientelism. Direct community involvement in decision-making has been hampered by weak local government. NGOs play an important role in service provision and empowerment in Bangladesh, although there is scope for improving their operations. There is also a need to reinforce Parliament and the press as key instruments of accountability.

7. Good governance
The centralised and inefficient state structure is a hindrance to development and poverty reduction. There is poor accountability and transparency, which has led to corruption and a growing mistrust from the public. This is caused by weak or missing institutions to carry out policies and projects effectively and powerful vested interests that weaken client commitment in the face of complex and politically difficult reforms. Instruments of governance are controlled by a self-serving elite whose behaviour is reinforced by social norms of dominance and patrimonial society.

8. Realisation of human rights
The major human rights issues in Bangladesh are the abuse of power by officials, police and local elites or gangsters, leading to insecurity and exploitation. Further reforms in legal systems, women’s rights and the capacity of civil society will be needed if democratic and market systems necessary for growth and poverty reduction are to be sustainable.

Gender inequality is a major problem in Bangladesh. Women are normally economically dependent, vulnerable, educationally deprived and politically and socially disadvantaged. Female-headed households are often the poorest due to gender differences in the distribution of land and other entitlements.

9. Law and order
Entrepreneurship is currently impaired by the lack of a reliable justice system. The vulnerability of the poor is increased by actual and perceived threats of violence, misuse of power and lack of redress. The law and order situation is deteriorating and the police are ill-disciplined and corrupt and the criminal justice system does not provide effective and accessible justice for the majority of the population.

10. Human and financial capital
The binding constraint to economic growth and development in Bangladesh is capital. The importance of the development of human capital, including education, health and nutrition, is a constant theme in the literature. Despite recent gains in some indicators, the government must prioritise its expenditures in this area.

Access to financial capital by the poor is required to enable them to invest in their assets. The financial sector is weak and vulnerable to collapse and is in urgent need of reform. Problems include an inadequate legal framework, and weak central bank supervision.
I INTRODUCTION

The purpose of this paper is to contribute towards a common understanding amongst participants in the ‘Bangladesh Big Picture’ Study of the main issues that will have to be considered and the approach that should be pursued in the analysis. This approach will be discussed in a meeting of experts on 17 December 2001.

II FRAMEWORK FOR ANALYSIS

The framework for analysis is posited on poverty being understood as a complex set of processes, involving low human development, income and consumption, and characterised by inadequate access by the poor to assets (human, financial, social, physical and natural), and the return on these assets. The poor are also vulnerable. Their income and consumption are variable and subject to shocks, yet they posses few means of managing this risk. As a result, the poor can move into and out of poverty in response to relatively small changes in economic conditions. In addition, poverty can result from – and contribute to – exclusion from social, political and economic processes (including markets). A particular feature here is the exclusion of groups defined in terms of their gender, class, ethnicity, and caste.

The framework proposes that if Bangladesh is to make progress towards achieving the Millennium Development Goals (MDGs), progress needs to be made in four dimensions (or ‘strategies’). These are:

1. **Growth** of assets, incomes and consumption
2. **Empowerment** of the poor, enabling them to influence the structure and operations of public and private institutions
3. Greater **equalities of opportunity** for poor people to build up their assets and generate livelihoods
4. **Security** to counter physical and economic vulnerability that drives people into poverty or threatens the sustainability of their exit from poverty

The terms of reference highlight eight key factors or trends in Bangladesh’s socio-economic development. It was felt that this list excluded important issues relating to human and financial capital and macroeconomic determinants. These have been added to make a list of ten major underlying socio-economic, institutional factors (or determinants). This document assesses the importance of these determinants in achieving the four strategies outlined above:

1. Globalisation and trade
2. Macroeconomic determinants
3. Demographic change and urbanisation
4. Environmental constraints
5. Access to markets
6. Socio-political changes
7. Good governance
8. Realisation of human rights

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1 The framework chosen for the analysis draws on approaches developed in DFID’s poverty-reduction Target Strategy Paper and the DFID/OPM paper ‘Making Markets Work Better for the Poor’.
9. Law and order
10. Human and financial capital

Considering the strategies that must be achieved to ensure progress in the realisation of the MDGs in terms of the determinants that will influence this progress provides a useful framework for the analysis in this review and in the overall study. Some of the findings of this review are summarised in a matrix framework in Annex 1. The boxes in the matrix include a summary of some of the issues that have been highlighted.
III SOCIO-ECONOMIC DEVELOPMENTS IN BANGLADESH

The most recent poverty estimates suggest that 35.6% of the population is below the poverty line (39.8% in rural areas and 14.3% in urban areas). Recent progress in realising the MDGs has been mixed. Income per capita grew from $124 in 1974 to $295 in 1999. Suggestions of progress include a rise in life expectancy of 12 years since 1975, a 30% fall in child mortality, a 50% decline in fertility rates, a doubling of primary school enrolment to over 90% and the achievement of gender equity in primary school enrolment. However significant challenges remain if Bangladesh is to succeed in meeting the MDGs.

During the 1990s, poverty rates fell by a little under 1% per annum (Islam et al. 2001). Although poverty has declined in both rural and urban areas in the past decade, rural poverty is higher than urban poverty. There are indications that human poverty has declined at a faster rate than income poverty as a result of significant progress in non-economic aspects of poverty. Income distribution is becoming increasingly unequal and the extreme poor (who are disproportionately represented by the elderly without families, orphans, the sick and outcast women) are becoming increasingly dislocated from the benefits of economic growth. Depending on which poverty measure is used, one-fifth to one-third of the potential poverty reduction from growth in the past two decades may have been lost because of higher inequality (World Bank 1999). There are also signs that poverty is also becoming increasingly feminised (Islam et al. 2001).

National attributes that favour Bangladesh’s future include social, racial and linguistic cohesion, the absence of a rigid feudal structure, deep family values, a popular preference for democracy and a strong sense of national identity (World Bank 2000). However there is a multitude of constraints to rapid poverty reduction which must urgently be addressed for improved progress to be made towards the millennium goals.

Economic growth will be essential. The World Bank projects that long term GDP growth rates of 7-8% are possible. If this is achieved, GDP per capita could rise from current levels of $295 to $650 by 2010 and to $1200-1300 by 2020, which could lead to a decline in poverty rates from current levels of 36% to 11% by 2020 (World Bank 2000). Although necessary, growth is not a sufficient condition for poverty reduction. A host of other issues, which are outlined in this review, will also have to be addressed to tackle the multi-dimensional nature of poverty in Bangladesh.
IV SOCIO-ECONOMIC DEVELOPMENT IN BANGLADESH: DETERMINING FACTORS AND TRENDS

A. GLOBALISATION AND TRADE

Globalisation is a powerful force which provides unprecedented opportunities, but also presents great risks to Bangladesh. If Bangladesh is to thrive amidst the evolving global economic forces, and poor and marginalised groups are to capture the benefits from globalisation, it is essential that appropriate mechanisms are put in place to enable the efficient operation of the private sector and to ensure that the country’s resources can be utilised effectively. Additional measures may be required to ensure that vulnerable groups are not further marginalised and that the opportunities and gains from globalisation are broadly based.

This will require a proactive trade policy which is currently absent. Trade liberalisation that began in the mid-1990s gained momentum in the early 1990s, but has since slowed considerably. Liberalisation has seen the elimination of a large number of the quantitative restrictions in place, a simplification of the tariff structure and a reduction in average tariff rates. This liberalisation has led to a doubling of the share of exports in GDP to current levels of 16%. However an import bias remains in several sectors.

1. Growth

There has been dramatic growth in garments manufacturing for export in recent years. This has absorbed a large proportion of the population entering the labour market (particularly females) and has provided an important contribution to poverty reduction. However the sector has now become saturated (ADB 2000) and further growth prospects are weak, particularly in view of the looming removal of Bangladesh’s trade preferences as the MFA is phased-out in 2005.

Finite domestic markets will mean that manufacturing development will have to be export-oriented (World Bank 2000). Bangladesh’s access to foreign markets has improved markedly in recent years as a result of multilateral trade liberalisation and unilateral removal of trade barriers to large markets including the EU. Further, Bangladesh’s geographical position and energetic workforce are assets that are attractive to firms looking for new manufacturing bases.

Bangladesh is a labour abundant country and is highly competitive in low skilled occupations including labour intensive manufacturing and agro-processing. Labour-intensive manufacturing should therefore benefit from greater openness. However in order to achieve an improvement in the working conditions and to ensure continued development of Bangladesh’s manufacturing sector, productivity increases will have to be achieved through skills development, improved nutrition and health of the workforce and improved working environments.

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2 An estimated 17.2 million women are employed in the garments and food processing industries. This has improved their livelihood options and their value in the household (Lawson-McDowall 2001).
Continued import substitution policies stifle competitiveness, create an anti-export bias and impede access to imported industrial inputs. Further trade reforms are therefore required. The IMF argues (IMF 2000) that the environment for FDI and a competitive industrial sector is also hampered by the gap between stated policies and their implementation, the dominance of inefficient state owned enterprises (SOEs) in many sectors, slow decision-making, legal complexities, cumbersome and centralised bureaucracy, deteriorating law and order, growing political confrontation and infrastructural constraints (including power shortages and transport bottlenecks). Other impediments include trade union militancy and poor commercial and financial management, particularly in SOEs which are being subsidised through the budget (both explicitly and implicitly)\(^3\) and through the accumulation of non-performing bank loans.

If the manufacturing sector is to grow, diversify and compete in global markets, there is an urgent need for a comprehensive reform programme that (a) improves the operation of SOEs, the financial sector\(^4\) and labour markets and; (b) removes impediments to private sector investment (particularly in the energy and transport sectors)\(^5\).

2. **Empowerment**

Increasing global integration means that policies and decision-making at the international level increasingly affect the poor in Bangladesh. It is the poor who are most vulnerable to the shocks that might be caused by such actions or decisions. There are few channels through which the needs of the poor are represented in decision-making at the international level. Improved institutions and governance (as outlined elsewhere in this review) as well as greater capacity to actively participate in international decision-making processes by the government could help to address this problem.

3. **Equalities of opportunity**

Globalisation may improve economic opportunities for the poor, but there is a risk of growing marginalisation. Improvement in skills and human capital is essential to enable Bangladesh to grasp the opportunities of globalisation and ensure poor people are not marginalised. Furthermore, access to the infrastructure necessary for Bangladesh’s industries to harness global markets is particularly important for the poor who are often isolated from the international economy.

The elasticity of poverty with respect to growth is lower in industry and services than in agriculture (World Bank 1999). The implications of this are that the increased importance of industry and services in national income and growth that will be an inevitable aspect of Bangladesh’s economic development mean that the overall poverty elasticity of growth in Bangladesh will decline. This does not imply that the changing sectoral composition of GDP should be discouraged, as this is an inevitable dynamic of a modern developing economy, but that increasingly high rates of growth will be required to for poverty reduction to continue and accelerate.

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\(^3\) The losses of SOEs have increased seven-fold over the past two years from Tk4.5 billion in 1999 to Tk 33.1 billion (US$605 million) in 2001.

\(^4\) See Section J – Human and Financial Capital.

\(^5\) See Section E – Access to Markets.
4. Security
Risks associated with globalisation and increased exposure to international markets include increased vulnerability to international shocks (including economic and environmental). The poor are particularly vulnerable to such shocks as they possess few means of managing such risk.

Reliance on garments exports, which account for around 75% of export earnings, exposes Bangladesh to immense vulnerability to external shocks, including changes in the trade environment due to the phase-out of the MFA. There is therefore an urgent need for a diversification of Bangladesh’s manufacturing base away from this reliance. Other export goods include leather goods, jute and frozen foods and there is potential for exploitation of niche markets in footwear, leather products, toys, jewellery, sports equipment, knitwear and ceramics (World Bank 2000).

B. MACROECONOMIC DETERMINANTS

The macroeconomic determinants of Bangladesh’s performance in achieving the MDGs share close links and overlaps with other elements included in this review, including good governance. This part of the analytical framework has not yet been well defined. However it is clear that strong economic policy management will be an essential contributory factor to rapid the economic growth that is a necessary condition for poverty reduction.

C. DEMOGRAPHIC CHANGE AND URBANISATION

Bangladesh’s population was estimated at 126 million in 1998. Despite a growth rate that has steadily fallen to a current level of 1.6%, projections suggest that population will grow by 60 million over the next 30 years and reach a steady state level of 250 million by 2100. Life expectancy has risen, child mortality is declining and the fertility rate has fallen dramatically. The combination of these demographic dynamics will reduce the dependency ratio, which could potentially be of benefit to the population. If this benefit is to be realised however, improved levels of education and literacy will be essential and there will be a need for employment creation to absorb the growing workforce. Bangladesh is the most densely populated country in the world, with the exception of city states. This density is projected to grow to 1,200 per square km by 2020, which will result in intensified pressures on the environment and resources.

1. Growth
An important demographic change in Bangladesh is the growing levels of urbanisation and migration. The urban population growth rate of 4.6% far outstrips national population growth. In 1996, the urban population was 24 million. This is projected to grow to 80 million by 2020, by which time urban dwellers will account for nearly half of the total population (World Bank 2000). In addition to urban centres, peri-urban areas and secondary towns and cities have become increasingly important areas for economic activity. Rapid urbanisation and the resultant change in asset structures provide both opportunities and threats which have resulted in a need for a change in the livelihoods strategies of the poor. Labour mobility has increased
and migration and remittances now provide a significant contribution to rural incomes.

This rapid urbanisation implies that there is an urgent need for investments in municipal services to ensure the poor have access to market opportunities. Urbanisation must be planned to avoid a crisis in housing, utilities, energy and the environment which will hit the poor first and deepest. Competent local governments will be essential to ensure the satisfactory design of infrastructure provision. The costs of such initiatives will be large: for example, the World Bank (2000) estimates that it would require 5-7% of GDP to cover the costs of informal housing for 3 million poor households.

Infrastructural improvements will not only be important in urban areas. In rural areas, the gains from switching from the farm to the non-farm sector are positive and large (World Bank 1999), implying that developing the non-farm rural sector holds considerable potential for poverty reduction. If the increased agricultural productivity and growth in rural non-farm incomes necessary to achieve this is to be realised, the presence of good roads, utilities and communications will also be important in rural areas. It will also require the presence of a necessary enabling environment through the preservation of the rule of law, efficient intermediation and respect for property rights (World Bank 2000).

2. Empowerment

The dynamics of growing levels of urbanisation, the emergence of new peri-urban centres and declining endowments of land per capita all imply the need for the improvement of existing and creation of new institutions to ensure that the needs of the poor, which are changing rapidly, are fully taken into account in planning and policy formulation.

3. Equalities of opportunity

New opportunities for the poor and marginalised are emerging as a result of the increasing importance of non-farm income in rural areas, a growing private sector and equality across genders in primary school enrolment.

However there is growing competition over resources and the flow of goods and services as a result of population growth and land shortages (Wood 2000). Continuing population growth has increased pressure on scarce land, leading to declining access to common property resources (particularly aquatic and fisheries resources), upon which the poor depend disproportionately (Islam et al. 2001). Agricultural land area will not grow any further and the agriculture sector cannot grow faster than 3½% on a sustained basis, even with diversification from rice-based subsistence farming (World Bank 2000). Households are increasingly taking up multiple livelihoods strategies to help smooth income and consumption (Islam et al. 2001). Urbanisation and the growth of rural industries will therefore have to provide new sources of livelihoods if incomes are to grow. At the same time, agricultural productivity will have to improve through the rapid and extensive use of suitable technologies and more vigorous exploration of opportunities for developing livestock, fish, fruits, and other non-rice products for both domestic consumption and export.

4. Security
Reduced dependence on agriculture and land resources amongst the population implies a reduction in exposure to risks associated with natural disasters. However the landless poor often possess few physical assets and may therefore be more vulnerable to economic shocks.

D. ENVIRONMENTAL CONSTRAINTS

Bangladesh is extremely vulnerable to environmental conditions which include frequent natural disasters, industrial pollution, poor health and sanitation, arsenic in the groundwater, deforestation, changes in climatic conditions and overall deteriorating habitats. The country’s low lying topography exposes the coast to cyclones and tidal surges and seasonal flooding and climate change is a particular threat. It could directly affect around 20-30 million people and particularly threaten the livelihoods of poor people dependent on agriculture.

It is essential that Bangladesh improves its capacity to mitigate the impacts of natural disasters, which will require a combination of physical and institutional adaptations. Important institutional adaptations include:

- Well defined planning structures and procedures
- Improved information and awareness about climate change
- Improved land use planning capacity
- Coordination between central and local governments on adaptation


1. Growth

There is evidence of rapid rates of environmental decline in recent years. These include recent declines in soil fertility, increasing salinity and deforestation. There has also been a degradation of fisheries resources, loss of biodiversity and deforestation. 10% of the land stock suffers from salinity problems, a further 10% is highly eroded and 60% of rain-fed cropland is vulnerable to severe drought (World Bank 2000). Siltation and flood control interventions threaten the sustained presence of wetland areas and the fish grown in them, which is a vital source of protein in the diet of the poor.

Global warming will have major implications for coastal flooding and salination, which will be intensified by population pressures. A recent World Bank study (World Bank C.H. Doc) estimates that 2% of Bangladesh’s total land area is likely to be inundated by 2030 and high-end estimates suggest that this sea level rise could inundate 18% of the country and result in a 32% decline in Boro rice production and a 31% decline in wheat production by 2100. Additional implications include a reduction in fresh water availability and increased intensity of natural disasters (including cyclones, floods and droughts). This will seriously deter private sector investment in areas of the country most likely to be affected (World Bank C.H. Doc). The study warns that Bangladesh faces very grave socio-ecological and economic risks if it fails to adapt to climate change. This will require a sound, modern information system, improved and more cost-effective monitoring and requisite institutional changes.

2. Empowerment
In the face of increasing environmental degradation, it is essential that the necessary institutions are in place to enable the poor to control the environmental and natural resources they use. This is particularly true in the case of land holdings, where the system of land allocation and entitlements is in need of reform.

3. Equalities of opportunity
Environmental degradation affects the poor disproportionately due to their high level of dependence on environmental resources, including land and water. They also often occupy the most marginal and dangerous low lying areas along the rivers and coast. To assist the poor, particularly those reliant on agriculture, to address these threats, there will be a need for concerted efforts to improve irrigation efficiency and crop diversification. It is probable that the increased incidence of congestion and standing water will increase the potential for outbreaks of cholera and other waterborne and diarrhoeal diseases, such as malaria, dengue and dysentery.

4. Security
The poor lack access to formal insurance mechanisms which results in high vulnerability to natural disasters. They are also disproportionately represented in the agriculture sector which is highly weather dependent. As exposure to environmental degradation increases, mechanisms must be put in place to enable the poor to adapt to the increased risks that this implies.

E. ACCESS TO MARKETS
Markets are a mechanism that link households with the macroeconomy. Policy influences the performance of markets and this is the principle mechanism by which policy affects the poor at the household level and by which the livelihoods of the poor can be improved. Markets provide the fundamental means by which the poor access assets and the workings of markets and the access that the poor have to markets is of central importance to their livelihoods. But the poor face many barriers to participating in the market economy. Improved access by the poor to product, labour, land and financial markets is essential for growth in incomes and consumption. There have been some recent positive developments relating to the poor’s access to certain markets in Bangladesh. The growth of the microfinance industry is one example of this.

1. Growth
The development of market institutions will increase potential growth rates through reducing the transactions costs involved in exchange, enabling more types of goods and services to be bought and sold and allowing prices to reflect scarcity and information.

The presence of highly imperfect, socially embedded markets alongside the extreme scarcity of resources in Bangladesh points to an urgent need for mechanisms to improve the functioning of and access of the poor to markets. Wood (2000) points to three main causes of the high levels of market imperfection in Bangladesh:

- The history of excessive regulation over the economy
- A tradition of price fixing in many areas (including the exchange rate and agricultural produce), leading to rationing in resource allocation
The significance of inter-personal relationships in the business community which creates market segmentation and barriers to entry. Attributes of this include rent seeking, restrictive practices via monopolies and oligopolies, false accounting, tax avoidance and the subordination of price mechanisms.

Policies are required to encourage and support private sector investment, entrepreneurship and job creation (Landell-Mills 2001). The presence of imperfect institutions and a weak socio-political system leads to allocative inefficiency of extremely scarce resources. Weak institutions compromise private sector activities. Improved governance is essential to creating a more supportive environment for business and the development of wealth-creating private sector activities, which supports competition and governs resource allocation. Powerful vested interests, a mismanaged private sector, poor regulatory and judicial systems, loss-making SOEs and the failure to develop a shared vision for private sector reforms undermine sound policy-making and public management, frustrate private entrepreneurship, thwart competition and breed corruption (World Bank 1998).

Other impediments to private investment include problems relating to land ownership, undercapitalised private banks, an unpredictable business environment and problems of law and order.

There is a need for acceleration of the privatisation programme and the development of a modern regulatory framework for private sector. Public ownership accounts for more than 20% of manufacturing output, 80% of commercial bank assets and most utilities. There has been very slow progress in the restructuring and privatisation of inefficient and loss-making SOEs, reflecting deep inefficiencies and governance problems, including political interference, lack of managerial accountability and soft budget constraints. Problems are furthered by the presence of vested interests, technical difficulties relating to the design of privatisation programmes and trade union militancy. This is particularly apparent in the jute, textiles, power and fertilizer sectors (IMF 2000).

Despite the hindrances outlined above, there are signs that the private, non-agriculture sector is flourishing, both in terms of petty trading and the presence of multilateral companies. Old connections with the agriculture sector are beginning to break down as a result of migration, urbanisation, infrastructural growth and the impact of globalisation (Islam et al. 2001).

2. Empowerment
Improved access to markets and services can both empower the poor and expand their livelihood opportunities. The recent growth of private sector activities has increased the demand and need for a more supportive business environment that provides the poor with greater influence over the institutions that govern the workings of markets. Access by the poor to markets must be enhanced by fragmenting monopolies, delinking markets and addressing the problem of dependence on patron-client relations which compromise the returns that the poor receive from their assets.

Land is very scarce in Bangladesh and is allocated inefficiently and inequitably. 50% of households are landless. Access to land markets has deteriorated for the poor as booming agricultural prices and the booming shrimp industry have raised premiums.
on already high land prices. The Government has failed to resolve problems regarding the distribution of Khas land and land markets remain constrained by corrupt and distortionary land administration.

3. Equalities of opportunity
Access to highly imperfect markets is based on patron-clientelism, social networks and tight control the elite hold over resources and markets. As a result, the extreme poor (including the elderly without families, orphans, the sick and outcast women), who have little of value to offer patrons are often totally excluded from market opportunities.

Access is further compromised by inadequate infrastructure, particularly in rural areas. The main areas where poor infrastructure stifles activities of the private sector are power, telecommunications, ports and transport. Cashin & Musillo (2001) argue that there is a need to improve the incentives facing the providers of infrastructural services. As well as the development of new infrastructure, the maintenance of existing service provision is essential and has received inadequate public funds in the past. The infrastructure scoping study by Cashin and Musillo finds that to benefit the poor, investments in infrastructure should be well targeted in rural areas.

4. Security
Human and economic assets which reduce vulnerability, enhance the poor’s ability to bear risk and diversity and assist them in escaping from monopolistic and tied economic relationships with patrons must be built to enhance the access that they have to markets. Furthermore, security will often be strengthened by improved access to markets. For example, through recourse to insurance and other markets, the poor are in principle better able to manage risk and, through access to food markets, to stabilise supplies and prices.

F. SOCIO-POLITICAL CHANGES

1. Growth
Since the introduction of democracy in the early 1990s, there has been a complex period of political change. Bangladeshi society is becoming increasingly pluralistic, with progressive support for liberal, rights-based citizenship. A positive feature of Bangladesh is social, racial and linguistic cohesion and a popular preference for democracy.

However there is little consideration of the substance of policy in political engagement. A culture of intolerance and confrontation continues to pervade the political system and there is political uncertainty, violence and intimidation between the country’s two main political parties (AL and BNP) (World Bank 1998). Political uncertainty and violence is a major impediment to investment. In addition, there are problems relating to trade union militancy and large numbers of days lost to strikes has hampered growth.

2. Empowerment
Social capital in Bangladesh (which is a significant determinant of access to assets, institutions and markets) is predominantly based on kin, lineage status and regional
and sub-regional identities. Politics and big business are intertwined and political power is concentrated within a small elite with inherited vested interests and which generate systems of patron-clientelism. The growing middle class and representatives of the private sector have not made a major impact in encouraging the government to reform. They lack political influence which continues to be dominated by the vested interests of the elite. Islamic fundamentalism remains a powerful reactionary force.

Power is also heavily influenced by gender and age discrimination. The state is marketised and patrimonial. It is marketised in the sense that the price mechanism triggers statutory rights and entitlements through rent-seeking, corruption and quasi-legal systems. It is patrimonial in the sense that power is personalised through patronage which draws on cultural principles of seniority and loyalty (Wood 2000).

There is a need to promote direct community involvement in decisions concerning resource allocation, the establishment of public investment priorities and the management of facilities and services (Landell-Mills 2001). Local government has been hampered by a lack of resources and institutional weakness, limited administrative autonomy, a low degree of local participation, a lack of fiscal autonomy and weak financial and technical skills. Although the government has shown some commitment to the introduction of more democratically accountable local government, there is widespread agreement on the importance of stronger local government institutions to ensure that the poor are empowered and that their interests are safeguarded in the decision-making process.

If the poor are to improve their governance and empowerment, this will come largely through civil society and the NGOs that represent them. It also requires greater involvement of the public in the policy process at the national level via the strengthening of advocacy and lobby groups. NGOs play an important role in providing services and empowering poor people and they have a productive working partnership with many government agencies, especially in the delivery of health services, family planning, nutritional services and non-formal education. They also assist in social mobilisation and by assisting poor groups to defend their interests against encroachments on land and fisheries resources (Landell-Mills 2001). Studies have shown (e.g. World Bank 1999) that services provided by NGOs are superior to similar services provided by the government or the private sector. However, there remains immense potential for their improvement. Landell-Mills (2001) highlights several factors that have hampered the service provision and empowerment provided by NGOs:

1. The accountability between society and state has weakened
2. Patrimonialism in society is somewhat mirrored in NGOs
3. Turf wars between NGOs have confused clients
4. Tensions between large and smaller local NGOs have compromised the quality of their services
5. The success of NGOs has not been consistent in all areas.

There is also a need to reinforce Parliament as key instrument of accountability. There is poor parliamentary representation and performance, partly because MPs are recruited via networking and the exchange of favours. Wood (2000) argues for the need for resources available to politicians to be enhanced (e.g. TA, library resources,
computers etc) and for enhanced support to organisations that train politicians and to the dialogue between MPs and researchers.

The empowerment of poor people in the socio-political process can also be enhanced through the promotion of critical, competent and credible journalism (via training, workshops, and dialogues with foreign reporters) (Wood 2000). In addition it will require enhancement of the availability of public information via further freedom of information legislation.

3. Equalities of opportunity
Social structures are dominated by traditional kinship patterns and a dependency relationship has developed between the central state, local power elite and rural poor. The delivery of community services is clientelist and relies on personal social resources. There is evidence of increasing exclusion of the poor from welfare and safety-nets. Rural class relations are based on landholding and the concentration of other sets of key natural resources, including water, fisheries, forests and orchards. There is a history of monopoly over resource allocation, rent-seeking and corruption. Ethnic groups are disproportionately represented amongst the poor due to state policies of exclusion and a lack of economic and social support.

4. Security
Political instability and uncertainties over security of the poor’s holdings of assets have impaired their ability to invest in their assets.

G. GOOD GOVERNANCE

The centralised and inefficient state structure is a hindrance to development and poverty reduction. There is poor accountability and transparency, which has led to corruption and a growing mistrust from the public. In its Country Assistance Strategy, the World Bank (1998) argues that the main constraints hampering domestic capacity to pursue sound development activities are (a) weak or missing institutions to carry out policies and projects effectively and; (b) powerful vested interests that weaken client commitment in the face of complex, politically difficult reforms.

Problems of governance, characterised by wavering political commitment to reform, disregard for the rule of law, and pervasive corruption are seen to be at the heart of the public sector’s weak performance. Wood (2000) argues that the main causes of problematic governance are institutional (as opposed to organisational) and are deeply rooted in the structures of society. Governance problems and weak institutions act to the particular detriment of the poor who are least able to demand rights and afford the pressures for illegal payments (DFID 1998).

There has been a steady politicisation and corruption of the civil service, a decline in its capacity, a lack of vision and a deterioration in respect for the rules of business. There has been little progress with recent attempts at reforms to the role of government. Donor efforts to support institutional reform have had a limited impact. There remains a need for vigorous public sector reform but for this to be a success, it will require a strong and genuine drive from government that goes beyond the rhetoric of the recent creation of the Public Administration Reforms Implementation
Commission. Landell-Mills (2001) highlights several key components that a reform programme in Bangladesh must strive to achieve:

1. Improvement of incentives and relating these to performance
2. Ensuring that promotions and postings based on merit
3. Establishing a credible oversight system
4. Enabling transparency and the use of monitorable performance indicators
5. Promoting systems for improved efficiency and accountability
6. Exploiting the unrealised potential of E-government

1. Growth

Subsidies, corruption and political favour have led to inefficiency and low levels of investment in productive sectors. Poor management, lack of accountability and political interference have meant lack of progress in restructuring and privatising inefficient and loss-making state owned enterprises. There are many of public expenditure programmes in activities that should clearly be left to the private sector which inhibit, rather than promote private sector investment (World Bank 1997). Investment has also been hampered by a gap between stated policies and their implementation, slow decision-making, legal complexities and a centralised bureaucracy.

2. Empowerment

If the MDGs are to be achieved, it is important that the poor are represented and their needs priorities in public spending plans. Instruments of governance are currently controlled by a self-serving elite whose behaviour is reinforced by social norms of dominance and patrimonial society which was reinforced over years of military rule (Landell-Mills 2001). There is very limited political accountability and transparency and powerful vested interests have weakened commitment to necessary reform. There is a resultant lack of confidence in the provision of public services.

Current institutions often lack the capacity to represent the poor and carry out programmes of poverty alleviation. Civil society must be strengthened to empower the voice of poor people in demanding better governance and there is a need for enhanced transparency and the genuine participation of stakeholders in decision-making processes. Judicial reform is also essential to build a firmer basis for the rule of law and to underpin accountability (Landell-Mills 2001).

There is need for support to the Anti-Corruption Commission. Other institutions that must be supported to improve the functioning of governance functions and improve the environment for private sector development include the judiciary, the customs authority and the central bank (World Bank 1998).

3. Equalities of opportunity

The opportunities for the poor to build assets and generate livelihoods are undermined by current institutional structures and cultural norms. They fall short of achieving the basic principles of citizenship and accountability and fail to deliver the needs of the majority of the population, and the poor in particular.

There is often a discrepancy between the private agendas of public actors and their formal public agendas, and the resources and services provided by central and local
governments are used as instruments of control. There is a resultant lack of access (for both the rural and urban poor) to health, education and other services provided by central and local government. This is also partly caused by an over-centralised state. 83% of the population live in rural areas, produce 80% of the country’s wealth, yet receive just 20% of state services (Rahman 2000). A poorly functioning state sector means poor people resort to the private sector for provision of social services, including health and education. There is a need for policies and institutions to increasingly target the most marginalised, including destitute women, the urban poor, environmental refugees and tribal communities (Rahman 2000).

Government programmes of targeted transfers or social protection will continue to be appropriate and necessary, particularly where the poorest are excluded from the benefits of economic growth, or where they face temporary shocks that threaten to cause a more permanent deterioration in their livelihoods. Efforts should be made to improve the management and targeting of such schemes and to ensure that beneficiary communities and involved in their design.

4. Security
Government support and schemes of social protection to safeguard the poor from insecurity and shocks have been badly designed and targeted as a result of pervasive governance problems.

H. REALISATION OF HUMAN RIGHTS

Bangladesh has a democratic constitution and has signed most international human rights covenants. An increasingly effective higher judiciary and legal profession provides a further boost. However there remains a long way to go to ensure that citizens are able to enjoy even the most basic human rights. DFID (1998) highlights the major human rights issues in Bangladesh as being the abuse of power by officials, police and local elites or gangsters (mastans) leading to insecurity and exploitation. Further reforms in legal systems, women’s rights and the capacity of civil society will be needed if democratic and market systems necessary for growth and poverty reduction are to be sustainable.

1. Growth
Commercial justice remains ineffective, undermining the rule of contract law and acting as an impediment to investment.

2. Empowerment
A 1996 government commitment to establish a National Human Rights Commission remains unfulfilled, judicial corruption is widespread and access to the formal legal system, particularly for women is minimal.

3. Equalities of opportunity
While there have been some recent improvements, gender inequality is a major problem in Bangladesh. Women’s rights have been the focus of a vigorous indigenous movement in the last 10-15 years and women are beginning to overcome traditional constraints on public participation by increased employment opportunities and microcredit schemes.
However gender inequalities are still substantial and deeply rooted. 78% of females are illiterate, unemployment amongst women is 3 times that of men, violence against women is a huge problem and there is significant discrimination in wage levels between genders. Families invest scarce resources in sons over daughters due to the patrimonial nature of kinship. Women are normally economically dependent and vulnerable, educationally deprived and political and socially disadvantaged.

Female-headed households are often the poorest due to gender differences in the distribution of land and other entitlements in the country (Rahman 2000). Women find it difficult to work and maintain independence, and lack access to markets and employment opportunities outside marital or natal homes. Access to agricultural land or the use of natural resources (such as water and trees) is dependent on the rights of the husband, meaning that in practice, most women are landless.

There have been some recent improvements in women’s access to finance through NGO and government schemes of microcredit, although in general, women lack access to formal financial resources (such as savings, credit and pensions). Social capital (i.e. relationships, networks and reputation) are essential for women to access market opportunities (Lawson-McDowall 2001).

I. LAW AND ORDER

1. Growth
A reliable system of justice is required to foster entrepreneurship which is currently limited by “income erosion” through non-procedural expenditure on police, courts, land etc (DFID 2000). The poor suffer more than others when the services provided under the formal justice system are not related to human needs, are inefficient, unaccountable, and do not respect human rights. Their vulnerability is increased by actual and perceived threats of violence, misuse of power, and lack of redress.

Anecdotal evidence suggests that the law and order situation has recently worsened significantly. The police are ill-disciplined and corrupt and there have been numerous reports of abuse of suspects and victimisation of poor people. The criminal justice system in general, and within it the police, does not provide effective and accessible justice for the majority of the population. The structure of the system is based on a colonial model focusing on public order and control. Its institutions are weak and under-resourced and they lack independent functioning.

Financial institutions have faced significant obstacles in pursuing cases against defaulters. The faults in the justice system and the associated lack of law and order impedes investment decisions.

2. Empowerment
The independence of the legal and judicial system is under threat and in rural areas and violence and intimidation rather than law often resolves land disputes. Recent positive signs include a ruling by the Supreme Court which held public authorities accountable for actions contravening the law. However there is a need to establish a firmer base for the rule of law and to underpin accountability through judicial reform. The criminal justice system is over-centralised and lacks local accountability.
3. Equalities of opportunity
Respect for property rights is essential for an enabling environment to enhance growth and enhance the opportunities of the poor. Many agricultural producers lack access to markets in Dhaka because of high payment to “Mustans”.

4. Security
Worsening law and order and an ill disciplined and corrupt police force have acted as a disincentive to asset-building and investment.

J. HUMAN AND FINANCIAL CAPITAL

1. Growth
The binding constraint to economic growth and development in Bangladesh is capital (physical, social and human) (World Bank 2000). Human, social and financial capital have become the key factors determining who is able to access emerging livelihoods opportunities and these factors are becoming increasingly key for the country to develop in a globalising world and for individuals to thrive in a market economy. It is therefore imperative that the government focuses efforts on increasing the poor’s capital endowments as it is the poor who possess the lowest endowments and are therefore often unable to harness market opportunities. Issues relating to social capital are addressed elsewhere in the review (under socio-political changes, good governance, human rights, law and order) as are issues relating to physical capital (including land and environmental resources). Issues relating to financial capital might have been included in the ‘Access to Markets’ part of the framework and review, but this issue is seen as so essential that particular emphasis has been given to it in this section.

The importance of development of human capital, including education, health and nutrition is a constant theme that comes out of the literature. This will be essential to achieving all four of the strategies highlighted in the framework for analysis. Although primary school enrolment has grown to over 90%, government spending on education remains low at 2% of GDP and growth of enrolment has not been accompanied by needed quality improvements. Only 22% of women are literate and 60% of enrolled students drop out of primary school. 70% of children under the age of five are underweight and 25% are stunted. The government must raise the priority of human capital development in its expenditures and should carefully prioritise expenditures within this budget. There is also a need for improved governance, institutions and policies which encourage entrepreneurship and innovation, the transfer of technology and marketing and management expertise.

2. Empowerment
For the poor to be empowered, they must be adequately educated to enable them to understand their rights and to enable them to influence the structure and operations of public and private institutions.

3. Equalities of opportunity
The poor often lack access to financial capital. Although microcredit schemes have enhanced availability for some, it is apparent that the extreme poor have been largely excluded from the benefits of such schemes. Lack of financial capital impedes the
ability of the poor to invest in their assets and for them to insure their livelihoods against risk.

Human capital is essential to enable the poor to diversify their livelihoods away from agriculture. Growing opportunities in urban and peri-urban areas as well as the non-farm rural sector depend on the possession of basic skills including numeracy and literacy, which many of the poor do not currently possess.

4. Security
The financial sector is in urgent need of reform. The bank sector is very fragile and vulnerable to collapse and the financial sector as a whole is shallow and underdeveloped. This threatens macroeconomic stability. Over 50% of the loan portfolio of nationalised commercial banks are non-performing (Landell-Mills 2001) and there is a large backlog of court settlement to recover overdue bank loans. Widespread reform will be costly – the cost of a government programme to rehabilitate the banking system has been estimated at around 10% of GDP (IMF 2000). Problems include an inadequate legal framework and weak central bank supervision (due to limited capacity and poor governance of publicly owned banks). Reforms will require significant revision to bank legislation alongside greater commitment to reform required to address the problems and ensure that lending is based on economic principles (IMF 2000). Financial sector reform will be essential to raise investment and savings rates that will be required to increase GDP growth.
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### Annex 1: Framework for analysis of Bangladesh’s ability to meet the MDGs

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<tr>
<th>Strategies for achieving Millennium Development Goals</th>
<th>Determining Factors</th>
<th>Factors and Trends</th>
<th>Realisation of human rights</th>
<th>Law and order</th>
<th>Human and financial capital</th>
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<tbody>
<tr>
<td><strong>Growth of assets, incomes and consumption</strong></td>
<td>Deciding the viability of the private sector – need for privatisation and liberalisation. Additional measures required to ensure vulnerable are not marginalised. Export-led growth essential. Comparative advantage in L-intensive production means this will create employment opportunities</td>
<td>Declining birth rate has led to a decline in the dependency ratio Increasing importance of district towns. Rural-urban continuum. Urgent need to improve infrastructural provision, particularly in urban areas. Greater role of migration and remittances</td>
<td>Environmental degradation is degrading environmental assets and will reduce the supply of land. Highly distorted and imperfect markets alongside extreme scarcity of resources Weak institutions, poor governance, corruption and a stalled privatisation programme contributory factors</td>
<td>Subsidies, poorly functioning bureaucracy, corruption and political favour have lead to inefficiency and low levels of investment in productive sectors Governance problems have hindered privatisation</td>
<td>Commercial justice ineffective, undermining role of contract law and acting as an impediment to investment</td>
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<tr>
<td><strong>Empowerment of poor to enable them to influence the structure and operations of public and private institutions</strong></td>
<td>Decision-making at international level increasingly affects the poor. Improved institutions and governance and greater capacity of government to participate in international for a required</td>
<td>Urbanisation and new demographic dynamics means new institutions necessary to empower the poor</td>
<td>Need for institutions to ensure the ability of poor to control environmental resources they use Poor lack influence over institutions that govern the workings of markets Need for improved regulation of private sector activities SMEs little influence in lobbying govt</td>
<td>Limited political accountability and transparency, dominance of elites operating on patronage principals GoB subsidies and services captured by better-off</td>
<td>Widespread access to formal legal system for poor limited</td>
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### Strategies for achieving Millennium Development Goals

<table>
<thead>
<tr>
<th>Determining Factors and Trends</th>
<th>Globalisation and trade</th>
<th>Demographic change and urbanisation</th>
<th>Environmental constraints</th>
<th>Access to Markets</th>
<th>Socio-political changes</th>
<th>Good governance</th>
<th>Realisation of human rights</th>
<th>Law and order</th>
<th>Human and financial capital</th>
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<tbody>
<tr>
<td><strong>Equalities of opportunity for the poor to build assets and generate livelihoods</strong></td>
<td>Higher levels of skills and human capital required to ensure poor not marginalised. Access by poor to adequate infrastructure also essential.</td>
<td>New opportunities emerging from non-farm income for poor and female headed households. Population pressures on scarce land</td>
<td>Degradation affects poor disproportionately</td>
<td>Poor particularly lack access to markets. Hindered by: market failure; social factors; weak land administration</td>
<td>Social structures dominated by kinship. Dependency between central state, local power elite and rural poor. Service delivery is clientelist. Monopoly over resource allocation, rent-seeking and corruption</td>
<td>Poorly functioning state sector means poor resort to private sector for provision of social services, including health and education Role of social protection programmes?</td>
<td>Some improvement of women’s’ rights. However gender a major problem for poor. Access and entitlements severely restricted by social norms regarding the role of women NGOs raising awareness of rights</td>
<td>Many agricultural producers lack access to markets in Dhaka because of high payment to “Mustans”</td>
<td>Lack of access to financial capital and low levels of human capital hinder diversification of livelihoods strategies and the ability to grasp new market opportunities</td>
</tr>
<tr>
<td><strong>Security to counter vulnerability to shocks</strong></td>
<td>Increased vulnerability to international shocks (including economic and environmental) Export diversification required to reduce reliance on garments (particularly in view of MFA phase-out)</td>
<td>Reduced dependence on land means reduction in exposure to climatic and environmental shocks. However landless poor posses few physical assets to insure against shocks</td>
<td>Increasing vulnerability to natural disasters – need for necessary insurance mechanisms which the poor lack</td>
<td>Human and economic assets, which reduce vulnerability and enhance poor’s ability to bear risk required to enable market entry</td>
<td>Political instability and uncertainty over security of poor’s asset holdings impedes investment</td>
<td>Government schemes to safeguard poor from insecurity and shocks poorly designed and targeted</td>
<td>Worsening law and order increases insecurity of investments</td>
<td>Fragile and underdeveloped financial sector threatens macro stability</td>
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