SANEM
Thinking Aloud

Editor's Desk

It is our pleasure to present to our readers the third issue of Thinking Aloud. This issue focuses on social protection. The first article, based on an empirical study, shows that social protection programs have positive contribution to raising female labor force participation in Bangladesh. The second article underscores the need for reforming the Bangladesh social protection system and points out to three major areas for reform: establishing a comprehensive and error free beneficiary data base, expanding coverage to the residents of urban areas and enhancing transfer amounts. The macroeconomic update focuses on the economics of social protection in Bangladesh. The short interview of Prof. David Hulme emphasizes on the importance of social protection programs in reducing poverty in Bangladesh, major changes needed in the current structure of social protection in Bangladesh and the major challenges ahead. A short story on the social exclusion in Bangladesh shows how social exclusion can be a big concern and why social protection is needed to address this concern. A short note shows how SANEM has helped the Government of Bangladesh in formulating the Draft National Social Security Strategy document.

Inside this issue

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Social Protection and Female LFP in Bangladesh: Insights from Econometric Exercises

Selim Raihan and Israt Jahan

Evidence suggests that female labor force participation (LFP) reduces the likelihood of household poverty; and resources in females' hands have a range of positive outcomes for human capital and capabilities within the household. Thus there is a strong rationale for ensuring females' participation in the economy's growth process. Though the economic growth process over the past two decades has been able to increase the rate of female LFP in Bangladesh, the rate is still very low. Experiences from different countries suggest that social protection (SP) programs can be very useful in increasing female LFP. The SP programs in Bangladesh primarily aim to reduce poverty; and majority of these programs target vulnerable groups and some are related to labor market participation. During 2005 and 2010 there had been a significant rise in the allocation for SP in Bangladesh.

We have examined the impact of SP programs on female LFP in Bangladesh. We have constructed a pseudo panel, using the 2005 and 2010 household income and expenditure survey (HIES) data, to see the effects of SP on female LFP for different cohorts. Our study follows the methodology developed by Raihan (2014) (Raihan, S. 2014. "An alternative methodology for constructing pseudo panel data"), where cohorts are defined on the basis of percentile ranking of monthly consumption expenditure of households. HIES data for 2005 and 2010 are divided into 100 cohorts separately based on the percentile ranking, and therefore there are 200 observations in total. Two different SP variables are constructed: the *participation* variable is the % of adult female participating in any SP programs for any cohort, and the *coverage* variable is the % share of income from SP in total income of any cohort. Our constructed panel data shows that the 1st, 25th, 50th and 75th percentiles had, in 2005, respectively 28.8%, 15.6%, 12.5% and 10.6% female LFP; and in 2010 the corresponding figures were 25.7%, 19.3%, 18.6% and 13.5% respectively. Actually, out of 100 percentile cohorts, 83 experienced rise in the rate of female LFP during 2005 and

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2010. In the case of SP, as high as 83 percentile cohorts experienced rise in the *participation* and 55 percentile cohorts experienced rise in the *coverage*. In the case of SP *participation*, 1st, 25th, 50th and 75th percentiles had, in 2005, respectively 4.5%, 2%, 3.6% and 2.5% *participation*, and in 2010 the corresponding figures were 8%, 3.7%, 4.4% and 2.5% respectively. In the case of SP *coverage*, 1st, 25th, 50th and 75th percentiles had, in 2005, respectively 2.19%, 0.60%, 0.32% and 0.16% *coverage*, and in 2010 the corresponding figures were 2.93%, 0.51%, 0.45% and 0.11% respectively.

The fixed effect model results from pseudo panel regression show that, among the control variables, female LFP is positively affected by higher female education, and female LFP also increases if the household is female headed. A 10% rise in average years of schooling of the female adults in the cohorts leads to 8.5% rise in the female LFP and being a female headed household increases female LFP by 1.2%. Also, female LFP rises if average size of the household falls - a 10% fall in the average household size leads to 10.04% rise in female LFP.

In the case of SP, female LFP doesn't appear to be affected by the *participation* variable. However, female LFP increases with the rise in the *coverage* variable. A 10% rise in the *coverage* leads to 0.82% rise in the female LFP. Our study also shows that the ratio of female LFP to male LFP increases among cohorts and across time with the rise in the *coverage*. A 10% rise in the *coverage* leads to 0.9% rise in the ratio of female LFP to male LFP. It means more female participate in the labor force relative to male if social protection has the higher *coverage* in the household income.

These results suggest that SP programs contributed significantly to the rise in female LFP in Bangladesh during 2005 and 2010. The policy implication which emerges from the analysis is that the coverage of SP should be expanded which can take care of child and old age dependency within the household and this will help female participate more in the labor market.

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Macroeconomic Update

Economics of Social Protection in Bangladesh

Over the years, social protection programs in Bangladesh have substantially expanded. Allocation for social protection in Bangladesh increased from 138452.7 million taka in 2009 to 253713.5 million taka in 2014, a rise by more than 83%. However as a share of budget it declined from 12.07% to 8.92%, and as a share of GDP it declined from 1.85% to 1.67% during the same time. Conventional research on social protection often termed programs as costly interventions which did not result in long-term poverty reduction and instead diverted resources away from growth-enhancing activities to those costly programs. However, with growing evidences from many developing countries, social protection programs these days are considered to be effective in mitigating both short and long-term vulnerability on poverty and economic growth. Evidences also suggest that social protection programs have been instrumental in cutting down the poverty rates in Bangladesh in recent years. However, it is now a growing concern in Bangladesh that even with high economic growth a part of the under-privileged population will likely be left out and there is a need to significantly strengthen the social protection programs. Existing programs therefore need to be reviewed and reformed for better targeting with a view to ensuring that all under-privileged groups are given priority in the distribution of benefits. However, a resource-constraint country like Bangladesh must also address the challenges related to financial sustainability and capacity limitations in expanding the social protection programs. In this context, it is important to consider social protection finance as a crucial component of public expenditure rather than something 'new' expense. While the Government should protect public spending on social protection, budgetary imperatives require much more attention to making these programs effective. Increasingly, efforts should concentrate on securing more contributory social protection programs based on beneficiaries' capacity to pay. With sound designs and effective implementation social protection measures in Bangladesh can play a significant role in promoting long term 'pro-poor' economic growth by encouraging accumulation of capital, enhancing work capacity, helping to manage risk, as well as extending potential benefits to non-beneficiaries with multiplier effects.

Selim Raihan

Reforming the Bangladesh Social Protection System

Bazlul Haque Khondker

Transfers of resources through the social protection programs have been considered a key instrument for poverty reduction in Bangladesh. Although, the rate of poverty reduction has been impressive; still one third population of Bangladesh was poor in 2010. Analysis with Household Income and Expenditure Survey (HIES) 2010 data suggests that the impacts of major social protection programs on poverty reduction are less than satisfactory. For instance, if there were no social protection programs in Bangladesh head count poverty rate would have been 33 percent instead of 31.5 percent. If the programs were targeted effectively to the poor, the head count rate would drop to 29 percent – a 2.5 percentage point reduction in poverty rate. Analogously, if the programs were targeted effectively to the extreme poor, the head count rate would drop to 13.5 percent from 17.6 percent reported in HIES 2010 (for detail please see National Social Security Strategy, 4th Draft, April 26, 2014). The above analyses suggest that Bangladesh may be missing out as far as poverty reduction using social protection as the instrument is concerned. More specifically, with effective application of social protection programs more than 3.5 million poor people and almost 6 million extreme or hard core poor people could have been graduated out of poverty in 2010.

Reasons for missing out are predominantly inefficiency and incoherence in the social protection system of Bangladesh. Moreover, performances are deteriorating. According to the World Bank (Bangladesh Poverty Assessment: Assessing a Decade of Progress in Reducing Poverty, 2000-2010' Bangladesh Development Series Paper No. 31, The World Bank Dhaka Office, June 2013), system's capacity to target beneficiaries efficiently has worsened in 2010 compared to 2005 with 64 percent of the poor not having access to any Social safety nets in 2010 and leakages of SSN funds increased from 44 percent in 2005 to 60 percent in 2010. According to Ministry of Finance, between 2005 and 2010, Bangladesh spent about USD 9 billion for social protection programs. Assuming 50 percent leakages (i.e. average of two point estimates of 44% in FY05 and 60% in 2010) it can be argued that USD 4.5 billion of social protection program has been wasted during the last five years. This is a large estimate. What could have been achieved with USD 4.5 billion? To put it into context – 5/6 mega infrastructure projects for which Bangladesh has sought assistance from Japan/China.

Against the backdrop of the current state of Social

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Security System, Bangladesh government has prepared the national social security strategy to redress some of the above mentioned problems of the system. More specifically, the strategy proposed short, medium and long term solutions. It is argued that "reform the national Social Security System by ensuring more efficient and effective use of resources, strengthened delivery systems and progress towards a more inclusive form of Social Security that effectively tackles lifecycle risks, prioritizing the poorest and most vulnerable members of society (NSSS, April 26, 2014)". We believe the immediate reform areas may include the following:

(i) Establishing a comprehensive and error free beneficiary data base combining proxy means test (PMT) approach and community based approach. Initial analysis by BBS and World Bank found that the introduction of PMT would reduce incidence of mis-targeting by about half from around 60 percent to 30 percent. If we include implementation level error it may even be higher than 30 percent to about 35-40 percent. However, it is still high and hence innovative approaches involving communities may be attempted to further lessen the incidence of mis-targeting.

(ii) Expanding coverage to the residents of urban areas. The social protection programs have been so far targeted to the rural poor. Current reality is that due to migration, the incidence of poverty has increasingly been urbanized. However, due to program design, poor in urban location are virtually excluded from social protection programs. Therefore, from equity perspective, social protection program must be expanded to the urban residents.

(iii) Strengthening Government to Person (G2P) payment systems that promote financial inclusivity and prevent leakages. Current delivery system is prone to leakages and corrupt practices. Along with establishing beneficiary data base, government should strengthen the payment system through introducing G2P system taking advantage of mobile banking facilities to further reduce the incidence of leakages.

(iv) Enhancing transfer amounts. Current transfer amount (estimated at around BT 480) has been found inadequate for a meaningful impact on the livelihood of a poor person. It is thus recommended that the transfer amount should be increased to between BDT 800 and BDT 1,600 from the current level. This change in the social protection system can be implemented mainly by consolidating large number of social protection programs into six/seven core programs focusing on life-course approach without needing substantial additional funds from government exchequer.

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"Create the political will"

SANEM interviews Professor David Hulme to discuss on social protection programs in Bangladesh. Dr. David Hulme is Professor of Development Studies, Director of the BWPI and CEO of the ESID Research Centre at The University of Manchester, UK. Dr. Hulme is one of the editors of the newly published book "Social Protection in Bangladesh: Building Effective Social Safety Nets and Ladders out of poverty".

SANEM: How important social protection programs are in reducing poverty in Bangladesh?

DH: Social protection programs have made significant contributions to reducing poverty in Bangladesh and helping poor people better engage in the economy and raise their incomes. It has a long history of innovation and transformation and has been promoted and expanded by governments and politicians across the political spectrum of the country. Central to Bangladesh's recent economic and social achievements has been a surprisingly effective portfolio of social protection programs addressing different vulnerabilities of both transient and chronic poverty. In an age of globalization, central to the achievement of inclusive development is an effective and evolving social protection system.

SANEM: What major changes are needed in the current structure of social protection in Bangladesh?

DH: There are few major changes needed in the current structure of Social Protection: (i) the programs need rationalizing so they can be more effectively managed and information can be generated that will permit strategic decisions to be taken; (ii) better MIS system and a proper impact assessment; (iii) civil service pensions should be removed from the Social Protection budget. This will reveal that social protection expenditure is only 1.6% of GNI, which should be raised to at least 2.5% of GNI; (iv) innovations in program design and implementation; (v) tackling urban poverty and vulnerability as an emerging challenge; (vi) effective targeting, avoiding program capture and systematic monitoring; (vii) the financial sustainability of social protection programs and exit policy; and (viii) combining protection and promotion goals aiming at household graduation out of poverty.

With its robust program portfolio, a capacity for innovation and broad based support for social protection across the political spectrum, Bangladesh has reasonably good foundations for formulating a National Social Protection Strategy. An additional requirement for a national social protection strategy is the provision of high quality information about the performance of Bangladesh's existing programs. It is critical to build on the innovations from such programs and pursue an effective scaling up strategy for graduation programs with proven results.

SANEM: What are the major challenges ahead for a country like Bangladesh in the case of social protection?

DH: The major challenges are: (i) creating the political will to reform the present mish-mash of programs; (ii) educating the political elite so that they understand that Social Protection is about human development and economic productivity – these are not hand-outs; and (iii) working out what forms of social protection are needed in urban areas.

The contemporary set of "good enough" programs cannot, however, meet the developmental demands and aspirations of the future. The contribution of social protection to Bangladesh's development is becoming increasingly constrained by the lack of coherent strategic framework and vision. This undermines its effectiveness in facing new and growing challenges arising from economic globalization, environmental and climatic changes, rapid urbanization and, what will become in the near future, an aging population. Coverage gaps, multiple types of leakages, the presence of low value-for-money program components and other factors weaken the prospects for improving the country's approach to social protection and the innovations that will be needed in an urbanizing and environmentally vulnerable country that is heading for middle-income country status. The country needs sound institutional arrangements for program coordination, implementation, monitoring and evaluation/learning, resource sharing, and service delivery.

SANEM: Thank you so much Prof. Hulme for your time.

DH: You are welcome.

The interview was conducted by Ahmed Tanmay Tahsin Ratul, Research Associate at SANEM.

Social Exclusion and Social Protection in Bangladesh

Syer Tazim Haque

Social exclusion is a phenomenon that restricts individuals or groups from enjoying their social, economic or political rights. Socially excluded people for several reasons fail to enjoy the benefit of economic growth and are mostly left out of the mainstream society. Indigenous people, Dalits, people with disabilities, sexual minority group, elderly people, widowed and distressed women etc. are the social groups who face exclusion in almost every step of their lives. In most cases these groups are left out of normal social life and barred from social interaction. Indigenous people are oppressed and discriminated by mainstream influential population in pertaining their economic and social rights. Dalit communities are termed as "untouchables" and forced to do unhygienic jobs. Sexual minority groups are not acknowledged for participation in economic activity and their children are not allowed to be admitted in normal schools. Elderly and disabled people are incapable for participating in economic activities hence they are often not treated with dignity and respect. Women facing violence are not even allowed to speak up for humanitarian rights. Conventional social protection programs fail to address the specific problems faced by these groups. Take the example of Food for Work, a big safety net program undertaken by the government. The excluded groups hardly can benefit from such programs. Disabled and elderly people cannot take part in it because of their lack of ability. Also sexual minority groups or Dalits are not socially allowed to participate in these programs. This is just one example. This calls for targeted social protection programs for these groups to address their specific problems. The good thing is the Government of Bangladesh has acknowledged the issues and taken up some programs such as Allowance for Beneficiaries in the CTG Hill Tract Areas, Food Assistance in the CTG Hill Tract Area, Construction of Sweeper colony at Districts for Dalits, Allowance for the Financially Insolvent Disabled, Stipend for Disabled Students, Old Age Allowance, Persian for Retired Govt. Employees. Not only the government but also other organizations have stretched out their hands to help out these groups in distress. UN, ADB, Save the Children, HelpAge International, ActionAid Bangladesh, BRAC and Research Initiatives Bangladesh (RIB) have some specific programs. Few of these are capacity building programs and few are direct support programs. Yet these initiatives are found to be inadequate. The formulation of a comprehensive National Social Security Strategy (NSSS) is expected to improve the situation.

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SANEM Updates
Completed Research Projects

SANEM accomplished the following research projects:

- Study on "Estimating Willingness to Pay in the electricity in Bangladesh" for the ADB, Manila. The study conducted a survey of 4000 households.
- Research project on development of HDI projection models for Egypt, Tunisia, Saudi Arabia and Yemen for the United Nations, Economic and Social Commission for Western Asia.
- Study on "Non-Tariff Measures in South Asia" for the GIZ and SAARC Secretariat.
- Study on "Equitable Financing in Primary Education in Bangladesh" for the DFID, Bangladesh. The study produced Education Development Index for the Upazillas in Bangladesh, an analysis of marginalization in access to education, and an analysis of financing in primary education.

Review

Khondker, B. H. (2014), "Economic Impacts of a Universal Pension in Bangladesh", Pathways' Perspectives on Social Policy in International Development, Issue No 17, London

Do social protection schemes generate economic growth? To answer this question this paper used a standard econometric model to estimate the impacts of a universal pension in Bangladesh on economic growth and tested it against alternative investment options, in this case investment in construction and capital machinery using a model of economy wide multiplier framework, popularly known as a Social Accounting Matrix (SAM), or the SAM multiplier model. The pension used in the experiment was a universal scheme, providing BDT600 (US$7.60) per month to everyone over 60 years in Bangladesh. The total annual cost of the pension would be BDT68 billion (US$863 million) – or 0.65% of GDP – and the paper examined an investment of a similar amount in infrastructure. It was found that the pension was just as effective at generating economic growth as investment in construction and capital machinery. This result is important in a resource-constrained country like Bangladesh, where government revenue comprises only 11.5 percent of GDP. When governments deliberate whether to invest in an old age pension, they need to think about its economic efficacy (or opportunity cost). The results show that a universal pension could be an effective economic investment by the Government of Bangladesh.

SANEM's involvement in the Formulation of National Social Security Strategy of Bangladesh

The Government of Bangladesh has embarked upon the formulation of a comprehensive National Social Security Strategy (NSSS). The Cabinet meeting held on 10th September 2012 entrusted the General Economics Division (GED) of the Planning Commission to prepare the National Social Security Strategy (NSSS) under the guidance of a Central Monitoring Committee (CMC) for the Social Safety Net Programs Chaired by the Cabinet Secretary. The CMC provided the terms of reference and overall guidance to the formulation of the NSSS. A strong process of regional and national consultation helped shape the contents and recommendations of the NSSS. South Asian Network on Economic Modeling (SANEM) and Policy Research Institute (PRI) started working jointly on the formulation of the NSSS. So far, the progress on the project has been satisfactory. The SANEM-PRI team managed to meet all the output targets established at the

Inception Workshop on time without compromising the quality. Cabinet Monitoring Committee (CMC) approved the latest draft NSSS (26 April, 2014) on 12th June 2014. The latest version (i.e. 4th revision) includes the comments and suggestions of line ministries, national and international social protection specialists, and civil society representatives. Among others the draft NSSS provides an implementation time line considering short, medium and long term time frames. The draft will be presented to the honorable prime minister to place to cabinet/National Economic Committee for approval. The 10 background papers prepared for the NSSS have been revised incorporating the national and international reviewers. The revised papers have been compiled into a volume for editing. The volume is expected to be published by GED within the shortest possible time.

Regional events for the formulation of NSSS

SANEM helped General Economics Division, Planning Commission, Government of Bangladesh (GoB) in drafting the National Social Security Strategy (NSSS). As a part of the formulation of NSSS, several regional consultations were held in four districts of Bangladesh. Government officials, civil society members, local leaders and beneficiaries of existing social safety net programs attended those regional view exchange dialogues. The local level consultations took place in Rangpur (21st November, 2013), Sylhet (23rd November, 2013), Khulna (23rd November, 2013) and Kaliakoir, Gazipur (30th November, 2013). In Rangpur, the supporting partner of the workshop was RDRS. Upazila Somajsheba Karjaloy was the local partner in organizing the workshop in Gazipur. In Khulna, the regional workshop held with the support from a local organization, Unnayan. In Sylhet, the partner organization for organizing the regional workshop was FIVDB. These consultations focused on 9 thematic areas: (i) allowance for Widow; Iii) primary education stipend; (iii) honorarium for insolvent freedom fighters; (iv) old age allowance; (v) vulnerable group development (VGD); (vi) food for work (road repair); (vii) forty days work; (viii) maternal allowance; and (ix) allowance for the financially insolvent disabled. During all these workshops, the participants shared their views and opinions regarding the formulation of an effective strategy for national social security. SANEM played an effective role in organizing these regional events in 2013.

SANEM-ADB Conference on Financial Soundness Indicators

SANEM in collaboration with the Asian Development Bank (ADB), Manila organized a two-day conference on "Understanding and Analyzing Financial Soundness Indicators" on 8-9 July, 2014 at the Westin Hotel, Dhaka. The aim of this conference was to facilitate better understanding and analysis of the financial soundness indicators in Bangladesh.

On the first day of the conference, Dr. Selim Raihan (Executive Director, SANEM) and Dr. Guntur Sugiyarto (Senior Economist, ADB, Manila) inaugurated the conference with their welcome remarks. Ms. Sujatha Viswanathan (Senior Economist, ADB, Bangladesh Resident Mission) delivered her opening remarks while Mr. Shitangshu Kumar Sur Chowdhury (Deputy Governor, Bangladesh Bank) was the Chief Guest and delivered his special remarks.

Other sessions included "Recent Demands on Macro-prudential Policy Analysis and Role of FSIs" where Dr. Selim Raihan gave "An Overview of the

FSIs in Bangladesh". Mr. Golam Mortaza (Economist, ADB, Bangladesh Resident Mission) and Dr. Kazi Iqbal (Research Fellow, BIDS) presented a "Study on Banking Sector Performance in Bangladesh". Dr. Md. Akhtaruzzaman (Economic Advisor, Bangladesh Bank) presented "Initiatives in Measuring New FSI Statistics". There were also sessions on "Real Estate Prices using GIS Technique" by Mohammad Syful Hoque (Researcher at SANEM) and "Role of Bangladesh Bank in Compiling FSIs: Lessons Learned and Challenges" by Mr. Debashish Chakrabortty (GM, Financial Stability Department, Bangladesh Bank).

The second day started with a special address from Mr. Mohammad Yousuf (Joint Secretary, Ministry of Finance). During the session on "Investment Climate Assessment", Dr. Selim Raihan and Mr. Ahmed Tanmay Tahsin Ratul (Research Associate, SANEM) presented "Results of Investment Climate Monitoring". Other presentations for the second day included "FSIs Compilation: Encouraged Indicators" by Mr. Md. Shahabuddin Sarkar (Deputy Director, National Accounting Wing, BBS) and Mr. Mohammad Syful Hoque; and "Financial Soundness Indicators: BBS's Role and the Way forward" by Mr. Abul Kalam Azad (Director, National Accounting Wing, BBS).

Around 80 participants from different research organizations, Ministry of Finance, universities, Planning Commission attended the conference. The conference generated intense discussions among the participants and panelists. This event came to an end with closing remarks from Dr. Selim Raihan and Dr. Guntur Sugiyarto.

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