

Research Brief

Background Research Papers for Preparing the National Social Security Strategy of Bangladesh

Building a Social Protection System to Address the Demographic Challenges Faced by Bangladesh

Introduction

Demographic change has, historically, been a key driver of social protection and can demand significant changes in broader social policy. The current system continues to be dominated by a commitment to selecting the extreme poor rather than establishing an inclusive form of social protection that provides social security transfers based on citizenship. Countries shape their social protection systems to provide support to various demographic groups, although most countries also have a small safety-net for those who fall through the gaps or need additional support.

Objective: The paper explores the demographic transition underway in Bangladesh and its implications for the design of the country's social protection system. It examines changes happening at various stages of the lifecycle and the implications for current social protection schemes directed at those stages.

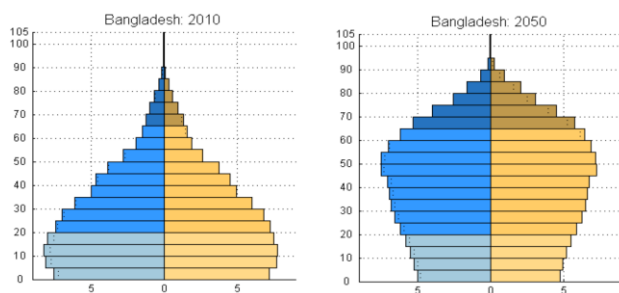
Methodology:

A comprehensive literature reviews and consultations with the experts, NGOs and related government, and evidence from international experience.

Research Findings

Demographic Change and Challenges in Bangladesh

The Bangladesh population pyramid for 2010 indicates that the majority of the population is still young – 31 percent are under the age of 15 years – but it is evident that lower fertility is beginning to have an impact on the proportion of young children. However, the fertility rate is likely to be highly sensitive to the effectiveness of Bangladesh's pension system. The reason for the link between pensions and fertility is that, once the state provides support to older people, parents no longer feel that they have to produce as many children to care for them in old age.



Early Childhood: Coverage of very young children by social protection schemes in Bangladesh is minimal, despite the challenges they face, in particular regarding undernutrition.

School Age: The main challenge with social protection schemes for school age children is that transfers are too small to have a meaningful impact. A reasonable transfer size – based on international experience – would be the equivalent of around 4 percent of GDP per capita, which is estimated at around BDT 240 per month, with no reduction in families with more than one child.

Working age (including young people) SP themes divided into 3 main types: workfare schemes; programmes for women; and benefits for people with disabilities. Workfare schemes tend not to reach the poorest families, who often do not have spare labour capacity. For working age women – although not a direct cash transfers – is childcare for young mothers, which enables them to continue at work. However, the provision of childcare in Bangladesh is limited.

The main disability grants reach only 290,000 people while there is also a small scheme for disabled freedom fighters. 2010 household survey suggests lower coverage with only 2.6 percent of those aged 19-64 years with a severe disability found to be receiving the disability benefit. While this probably indicates challenges with data collection, it also suggests that a significant proportion of those with the most severe disabilities are excluded from the scheme.

Old Age

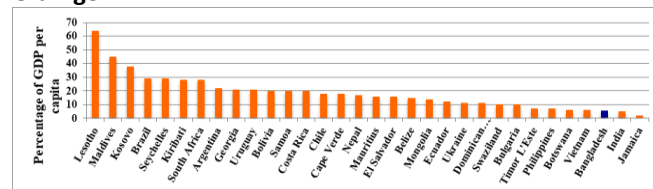


Figure above compares the transfer value – as a percentage of GDP per capita – with other similar tax-financed schemes from developing countries. It indicates that Bangladesh's Old Age Allowance has one of the lowest transfer values in the world and is well below the value of Nepal's Senior Citizens' Allowance.

Overview of the current social protection system

- Bangladesh's social protection system provides benefits to around 25 percent of all households
- The 2010 HIES indicates that the current social protection system reduces the national poverty rate by only 3.9 percentage points and the national poverty gap by 12.1 percent
- The low impact of the current social protection system are mainly due to low transfer levels and low coverage of poor households.
- There are also significant gaps in social protection system when measured against lifecycle stages and risks. Despite a high rate of undernutrition coverage of children aged 0-4 years is almost insignificant while the coverage of those of school age is relatively low. Furthermore, only a small proportion of people with disabilities and elderly receive some form of benefit

Options for Addressing Demographic and Lifecycle Challenges in Bangladesh

- The creation of a comprehensive pension system that provides income security to all older people through both contributory and tax-financed pensions
- The establishment of a system enabling single mothers to claim maintenance from the fathers of their children (or vice versa if the father is the single carer).
- The strengthening of a system of child benefits that prioritises tackling undernutrition among young children but progressively incorporates older children. This will also provide support to working age families.
- The continuation of a grant for widows of working age.
- A small residual safety net to support those who still fall into destitution
- The establishment of a comprehensive system of support for people with disabilities, from childhood to old age.

The introduction of a social insurance contributory pension

A contributory pension scheme could – over time – develop a substantial fund to be used for investments in private sector development. If pension funds are invested well, they can provide their contributors with significant benefits by increasing the value of their pensions. However, the governance of the fund needs to be robust to ensure that risks are minimised.

A comprehensive system of support for people with disabilities

Disability benefits should be established as entitlements, on an inclusive basis. Many of the reasons for universal provision are similar to those of the old age pension. However, it also needs to be recognised that all people with severe disabilities experience significantly higher costs and, as citizens, these should be compensated, in a spirit of national solidarity.

Direct support for working age families

While child benefits would be directed at supporting children, they would also be a means of providing income support to working age families, enabling them to engage more effectively in the labour market. This is likely to be a more effective and efficient means of providing support to working age families than the current system of workfare, such as the Employment Generation scheme.

Summary of options for introducing lifecycle schemes

A Lifecycle approach to social protection involves the gradual introduction of various schemes. So, for example, Bangladesh could invest over the next five years in 4 large inclusive schemes: A Child Benefit for 0-4 years old at BDT 300 per month, a pension for over 65 years old at BDT 800 per month, and two disability benefits (for children and working age adults with severe disabilities, at BDT 800). In total, these schemes would cost around 1.3 percent of GDP, or just over 1 percent if they were to reach only 80 percent of the eligible population, by using affluence-testing to exclude the wealthiest quintile.

Impacts on poverty and costs – as a percentage of GDP

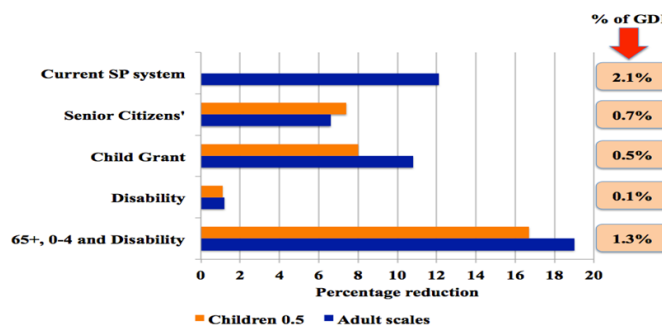


Figure above indicates the impacts on poverty that these schemes would have. The overall reduction in the national poverty gap would be almost 20 percent, which is significantly greater than the impact of the current system – at 12.1 percent - and at a much lower cost. Also, the coverage of these schemes would be high.

Conclusion

Bangladesh's current social protection system is not yet set up to tackle the demographic challenges faced by the country and does not provide an adequate minimum income floor for a wide range of categories of the population. An inclusive Lifecycle system of social protection that includes both tax-financed and contributory schemes – as well as legislation to mandate support from employers and errant parents – could begin to transform Bangladesh. In contrast to the current situation in which the social protection system has limited impact on poverty, an inclusive Lifecycle system could maximise returns to investment