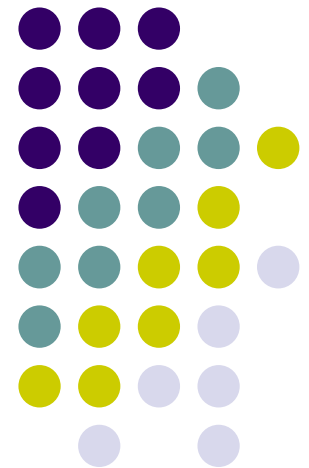


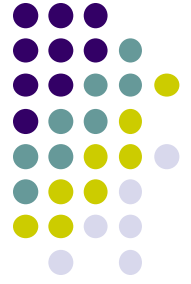
Risks and Vulnerability of the Poor in Rural Bangladesh

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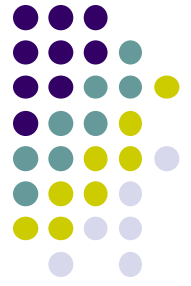


Content



- Objective
- Definition of vulnerability
- Concept how shocks affect vulnerability
- Methods
- Findings
- Conclusions

Objective of the paper

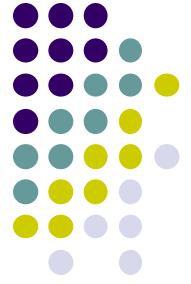


- To explore the risks and vulnerability of the rural poor
 - the nature of risks
 - economic burden of shocks
 - shock coping mechanisms

- To explain how shocks affect the vulnerability of the rural households

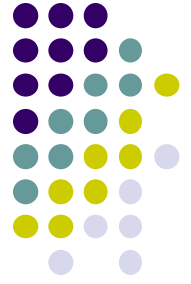
- To discuss the implications of existing shock coping mechanisms on microinsurance.

Concept of vulnerability



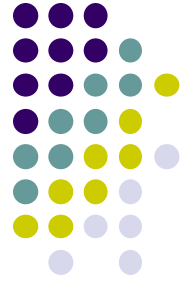
- Vulnerability is defined simply as the probability of decline of a household's well-being due to its exposure to risks (World Bank, 2001). Here, $w = f(y, \mu)$, $f_y > 0$, $f_\mu < 0$

How do risks and shocks affect vulnerability?



- In the absence of insurance, households mitigate risks ex ante through assets and income diversification
- The poor are highly risk averse
- Invest in low-risk and low-return activities to protect themselves against expected shocks.
- ... leads to further impoverishment.

Cont/.



Ex post impact

- shocks usually force poor people to deplete their savings and productive assets which may push them into a position of higher vulnerability through reducing productivity and income.
- households who have access to formal financial services or microfinance institutions utilize their productive resources to cope with the shocks.
- Households also borrow from informal money lenders at high interest rate.
- households also may need to reduce consumption or increase labor supply or cut down education expenditure.

Methods



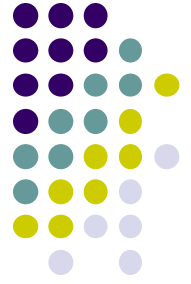
Data

- Two data sets used
 - A national level survey on 4000 households of 120 villages
 - A small survey on 400 extreme poor households

Analytical method

- We measure consumption vulnerability
- Economic burden by summing direct loss of shocks and coping costs
- Model: Ordered logit regression

Findings



Nature of shocks

Nature of shocks	National level survey		Small survey	
	%	Fre.	%	Fre.
Death	4.65	162	10.9	(51)
Health	37.31	1299	34.2	(160)
Crop	10.28	358	-	-
Properties	9.62	335	19.4	(91)
Livestock	13.87	483	13.5	(63)
Wedding & Dowry	9.68	337	14.5	(68)
Migration to abroad	10.8	376		
Education	1.58	55	0.2	(1)
Violence	-	-	4.9	(23)
Others	2.21	77	2.3	(11)
Total	100	3482	100	468

Nature of shocks by the main occupation of the household head



Nature of shocks	Agri.	Day labour	Transport	Small business	Medium business	Service	Housewife	Others
Death	3.84	4.72	4.05	4.04	4.62	4.38	7.64	4.95
Health	34.34	41.75	46.24	38.18	39.31	42.23	34.22	36.46
Crop	15.7	7.08	8.67	8.28	5.2	7.57	4.65	7.55
Property	7.36	9.43	14.45	13.94	19.08	7.57	6.31	8.33
Livestock	16.03	17.45	14.45	12.93	7.51	11.55	9.63	11.98
Wed. & dowry	10.14	8.02	5.78	12.32	8.67	8.76	7.31	11.98
Migration	8.91	8.73	3.47	6.67	12.14	11.55	24.92	15.36
Education	1.64	0.47	0.58	1.82	1.73	2.39	1.66	2.34
Others	1.96	2.36	2.31	1.82	1.73	3.98	3.65	1.04
Total	100	100	100	100	100	100	100	100

Direct loss and coping costs of shocks



Average costs (in Taka)

Type of crises	National level survey	Small survey
Life (death)	47648	29161
Health *	18753	10936
Crop	29225	-
Property	74989	20700
Livestock	18594	4638
Wedding and dowry	112749	46600
Migration to abroad	309503	-
Education	17965	2500
Violence		4625
Others	135368	46928

* Only the coping cost is considered

Coping mechanisms



Coping mechanisms	National level survey		Small survey	
	Death	Heath	Death	Heath
	Percent	Percent	Percent	Percent
Unable to cope with the shock	7.5	4.0	3.5	9.2
From regular income	24.8	32.56	29.6	17.2
From savings	22.4	19.70	16.4	20.7
Borrowing	26.8	28.3	21.7	18.3
Selling and mortgaging assets	6.8	5.33	5.1	3.4
Selling livestock	1.2	2.45	7.3	6.9
Donation	6.8	3.58	15.7	23.0
Insurance	-	-	-	-
Others	3.7	4.08	0.7	1.1
Total	100	100	100	100

Multivariate analysis



Explanatory variables	Dependent variables: food sufficiency level (0 = deficit in whole year, 1= sometime deficit, 2= neither deficit nor surplus, 3= surplus)
Age of household head	-00.2
Education of the household head	.078***
Household size	-.134***
Electrify connection (1 = yes, 0 = no)	.468***
Number of household members living abroad	.295***
Sex of the household head (1 = female)	-.075
Log of economic burden of shocks	-.044***
Log of financial asset	.078***
Log of total land (in decimals)	.058***
Area (1– program area, 0– control area)	.035
Log of income (in Taka)	.963***
No. of observations	3822

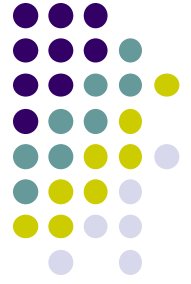


Conclusions

- Shocks hit mostly the poor households
- Household's regular income and accumulated saving are not sufficient to cope with the shocks.
- Shocks affects the food sufficiency level.
- The paper concludes that shocks increase the probability of being vulnerable to poverty.

Policy implication

- The paper suggests that an alternative shock coping mechanism (e.g., microinsurance) is important to protect the poor rural households from the shocks related to health and life, property, livestock, crop and marriage.



Thank you