

# INSIGHTS

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## 10 REDUCED INEQUALITIES



### SDG 10: The Challenge of 'Divided Humanity'



Bangladesh has achieved impressive gains in economic prosperity and human development since independence in 1971. The GDP per capita has more than tripled in real terms since 1972 and life expectancy has risen from less than 55 years in 1981 to 72 years in 2016. The economy has been achieving more than 6 percent real GDP growth on average for more than a decade; which has recently crossed the 7 percent landmark and shows strong trends to grow faster in the coming years. Similar progress has taken place in other indicators of well-being showing that Bangladesh is on course towards achieving the goal of developed country status by 2041.

While these are commendable successes, there also exists a darker side of the picture; nearly 20 million of the country's people still live in extreme poverty. The richest 5 percent of the population has nearly a quarter of the total income, while the bottom 5 percent owns less than 1 percent. Among the children, nearly one-fifth is likely to drop out at the primary level of education. Despite rapid decline in maternal mortality, it is still high and more rural women are likely to die during pregnancy than women living in urban areas. Despite significant progress in electricity coverage, an urban household is more than two times more likely to have electricity coverage than a rural household. Social protection has been extended; yet the poor and the disabled are more likely to incur catastrophic health expenses. Women's participation in work force has substantially increased; but gender discrimination in wages persists and women are heavily concentrated in vulnerable and low-paid employment. Overall, 'humanity remains deeply divided' in Bangladesh as elsewhere in the developing world.

Recent trends at the global level indicate that income inequality is growing both within and across countries. Moreover, largest increases in income inequality have taken place in faster growing developing countries showing that economic progress exacerbates disparities. Bangladesh is no exception. However, these consequences are not inevitable; many countries have actually reduced both income and non-income inequality through pursuing prudent economic and social policies along with ensuring greater participation of those who are left behind by the 'usual' development process.

In the rapidly changing Bangladeshi society, the drivers of inequality are complex and multidimensional. Addressing inequality in such a complex situation requires a holistic approach to rectify the underlying factors that cause inequality and alter the conditions that generate inequality. Broadly speaking, human well-being is multi-dimensional and has three core dimensions: (i) material that determines the standard of living; (ii) relational that covers personal and social relations; and (iii) subjective that emphasises values and perceptions. Traditionally, the focus of inequality is on the first dimension, such as on inequality in income/wealth, education, health, nutrition and other aspects with concerns for inequality of outcomes (e.g. levels of income or health or education) and inequality of opportunities (e.g. access to employment or education or markets).

Although income inequality is a critical factor that determines non-income inequalities, there are other driving forces as well such as 'bad' institutions resulting in inefficient and ineffective service delivery, 'governance failure' creating corruption and absence of rule of law, and 'misdirected' public policy favouring the privileged. In practice, material inequalities are deeply intertwined with relational inequalities (e.g. in voice and agency) and such inequalities cannot be sustainably improved independently of improving relational inequality. This indicates the urgency of attacking inequality in a comprehensive manner covering all three dimensions.

Research on inequality shows that the relationship from growth-to-inequality is somewhat complex providing no systematic empirical evidence; whereas inequality-to-growth relationship does exist. High or rising inequality has a negative impact on growth. On the other hand, inevitability of rising inequality with growth is not well-founded and rising inequality is not necessarily a price that developing countries must pay for development. From a broader perspective of human well-being, inequality matters for development, not only on fairness and ethical/moral grounds, but also because of the fact that the speed of poverty reduction and increase in human well-being are related to the level and direction inequality in society. In order to reduce poverty and raise the incomes of the poor, inequality must be 'managed'.

## Household Income Inequality

Globally, household income inequality has been rising over the last twenty years; a similar trend also exists in Bangladesh. Many researchers argue that globalisation and skills-based technical change are important drivers of income inequality. These are often strengthened by existing patterns and intergenerational transfers of inequality resulting from skewed access to higher-level of education. Many commonly pursued policies, such as monetary policy that emphasises price stabilisation over growth; fiscal policy that prioritises consolidation at the expense of growth; labour market policy that weakens labour's bargaining power, and similar policies contribute to rising income inequality. However, the good news is that trends in income inequality are reversible; it is possible to shift from increasing to decreasing income inequality through appropriate policy reforms.

The globalisation dynamics in Bangladesh (as in other developing countries) including financial integration and other forces significantly weaken the bargaining power of relatively immobile labour relative to mobile capital and drive up wage skill premiums which affect the people at the bottom of the income distribution the most. These forces combine with existing wealth inequalities which transmit inequalities of both income and opportunities to future generations.

## Non-income Disparities

In Bangladesh, large disparities in education, health, nutrition and other non-income dimensions of well-being exist between households of different income levels in society. Disparities also exist among rural and urban households. Although declining, still gender gaps are significant in many indicators. Obviously, income inequality is an important determinant of non-income inequalities. However, income inequality alone does not explain such variations; social

norms and behaviour, quality of governance and service delivery, and effectiveness of public policy also matter.

Gender disparities are critical to all forms of disparities in socio economic life of individuals in Bangladeshi society. Although gender gaps in education have significantly narrowed down, inequality in many other social dimensions such as health and nutrition still remains high. Further, inequality in livelihoods and earnings is a key dimension of inequality which governs the uneven bargaining power of women and men within the households and in the society. This, however, provides a key to leveraging changes in other forms of inequality. No doubt women's access to labour force is rising; but gender wage gaps still persist, women's employment clearly lags behind their achievements in education, and women's greater access to employment largely replaces men in more vulnerable, physically demanding and 'lower-quality' jobs. Opportunities available to women still remain limited by socio-cultural norms and 'gender discrimination' embodied in economic, social and political institutions.

For reducing inequality, the key policy agenda for Bangladesh will be to ensure a more rapid and comprehensive transition to the inclusive growth agenda that systematically addresses the problems of income inequality; closes the gaps in key social indicators including education, health and nutrition across different social groups; and tackles the discriminatory institutions and norms including lack of empowerment of the disadvantaged groups. Such a transition towards inclusive growth requires a shift in the country's development paradigm to bring changes in the growth pattern such that low-income households can have higher than average income growth, can install effective redistribution policies favouring the poor, and can expand new avenues of economic and social opportunities for the poor and disadvantaged populations.

For closing social gaps, the focus has to be on provision of basic social services (e.g. education, health, nutrition) to groups suffering from greatest disadvantages. Innovative and quality service delivery programmes and well-conceived modalities including early childhood interventions and integrated healthcare systems tailored to specific needs of disadvantaged groups deserve careful consideration. Successes in these efforts need frontal attack on social exclusion that reinforces existing inequalities of outcomes and opportunities. The priority will be to build multi-stakeholder coalition in support of crafting inequality-reducing ideologies and actions as well as for widening the policy space covering evidence-based agenda in support of the premise that reducing inequality would benefit all in Bangladeshi society.



### Safe Drinking Water in Saline-prone Coastal Belts: Innovative Solutions

Lack of safe drinking water and poverty are mutually reinforcing. For those who live without safe water, adequate sanitation and effective hygiene practices, water-borne diseases are a constant threat to health, keeping them out of the work force and in poverty. According to UNICEF, safe and improved drinking water includes sources that, by nature of their construction or through active intervention, are protected from outside contamination, particularly faecal matter. The National Policy for Safe Water Supply and Sanitation 1998 interprets safe water supply as 'withdrawal or abstraction of either ground or surface water as well as harvesting of rain-water; its subsequent treatment, storage, transmission and distribution for domestic use'.

The state of drinking water security in the coastal region is an important issue for Bangladesh as the coastal region is the home of large numbers of the poor, small and marginal farm families and shrimp workers. In the monsoon, the river basins flood resulting in disruptions of human habitation and settlements, agricultural land and pollution of drinking water sources. During the dry season (November-May), there is a scarcity of water because of the decline in water flows in the rivers and the drying up of large numbers of water bodies. Higher salinity level has two major consequences: (i) this limits agricultural activities in the area; and (ii) drinking water becomes very scarce. High level of soil salinity contaminates the ground water of the region. The average intake of drinking water of saline-prone areas is much lower than the national average having adverse health consequences. Rain water is the only form of purest water available for these saline prone areas (mostly during the rainy season due to lack of water preservation facilities). In recent years, different technologies have been explored for ensuring sustainable supply of safe water for the coastal people. One option for drought- and saline-prone areas is to preserve rainwater in artificial ponds and distribute it to the communities. Similarly, although filtration and desalination plants are expensive, these offer chances to avert a looming crisis.

To sustain supply of safe drinking water, various technologies (pond re-excavation, rain water harvesting, pond sand filters, reverse osmosis technology and the like) are being promoted through different approaches. Palli Karma-Sahayak Foundation (PKSF) along with other development agencies, have been undertaking various interventions to overcome the challenges and improve the supply of safe drinking water in the coastal belt. For ensuring sustainable potable water supply in salinity prone areas, PKSF has set up 20 reverse osmosis based desalination plants through its 12 Partner Organisations (POs) in nine upazilas of four saline prone districts (Satkhira, Khulna, Bagerhat, and Potuakhali) under the LIFT Programme. The water supply model adopts a price discrimination approach and ensures continuous supply of potable water at a nominal price (BDT 0.50/lit) to the poor households but at a relatively higher (but much less than the market price) of BDT 1.00/lit to the non-poor people. This cross subsidisation model has been adopted to make water supply financially sustainable and provide better potable water supply services to the coastal community.

Holding rain water for drinking during the dry period is a traditional practice in the coastal region. However, holding sufficient volume of rain water has always been a challenge for the extreme poor. Considering the limitations, PKSF has distributed 2,000 units of 1,500-liters capacity plastic water-holding tanks to the extreme poor households of salinity prone south western coastal region of Bangladesh for holding harvested rain water under the LIFT programme. Besides, PKSF has also distributed 5,600 water tanks in these areas for holding harvested rain water under its emergency loan (*Shahos*) programme.

In view of the innovative nature of these efforts, this study of InM intends to conduct a rapid qualitative assessment of different water supply technologies and strategies that are in place in the southern coastal region in Bangladesh. The aim is to notify PKSF the business viability of



Water Desalination Plant



Free Water Tank for Rain Water Harvesting



Free Distribution of Plant Drinking Water among School Children

various technologies and approaches which can be used to define PKSF's future involvement and investment in mitigating the challenges related to safe drinking water in the southern coastal region of the country.

The study will analyse the current state of safe drinking water in terms of availability and access in the southern coastal region of Bangladesh, review various water supply technologies and business models that are in practice in the region, and provide a comparative picture of scale and sustainability of these technologies and models with special reference to PRIME, LIFT and other initiatives of PKSF. It will also review the justification of water desalination in addressing the water supply issues and provide a detailed description of the model and its progress with regard to scale and sustainability. The study will assess the effectiveness of desalination plants and reservation of rain water among the poor people in saline-prone coastal regions of Bangladesh and provide strategic recommendations on future interventions to address the challenges related to safe drinking water for the population in the coastal communities in Bangladesh.

InM is currently collecting information from the field through consultation with stakeholders, FGDs, key informant interviews (KIs) and secondary sources. During FGDs with users and nonusers of desalination plants and water tanks in selected areas, it is seen that awareness among the people regarding benefits of safe drinking water is somewhat limited. Many MFIs offer free water to the school students and religious institutions to raise awareness and make the community people adept with the safe plant water. The study is likely to be completed in September 2017.

## Financial Inclusion of Disabled People: Challenges and Barriers

InM organised one FGD with a group of disabled people in May 2017 for identifying specific barriers and challenges in accessing financial services. From the FGD, it emerges that disabled persons face various problems while opening bank accounts. Banks and financial institutions are somewhat reluctant in providing financial services to these groups and they face harassments while accessing services. These persons with disabilities need 'legal empowerment' to manage their own affairs, including ability to enter into formal financial arrangements. For ensuring 'proper' behaviour of bank staff, service providers need training on raising awareness for dealing with persons with disabilities with care and dignity. The infrastructure of the premises should also be made 'disable-friendly' by removing access barriers. For example, ramps may be built for the disabled. On the other hand, availability of information in Braille may be introduced for the blinds and sign language for the dumb people. The signs on the currency notes for the blind should be made more visible and prominent. These and similar other barriers should be kept in view while designing appropriate financial products for the disabled people.



## Roundtable Dialogue on Digital Financial Services (DFS)



The United Nations Capital Development Fund (UNCDF) organised a high-level roundtable dialogue on 'Role of Digital Financial Services in Promoting Inclusive Growth: Challenges and Opportunities' on May 9, 2017. Dr. Mustafa K. Mujeri, Executive Director, InM presented the keynote paper and addressed DFS existing status, challenges and risks, and highlighted some recommendations for future activities.

## Paper Presentation

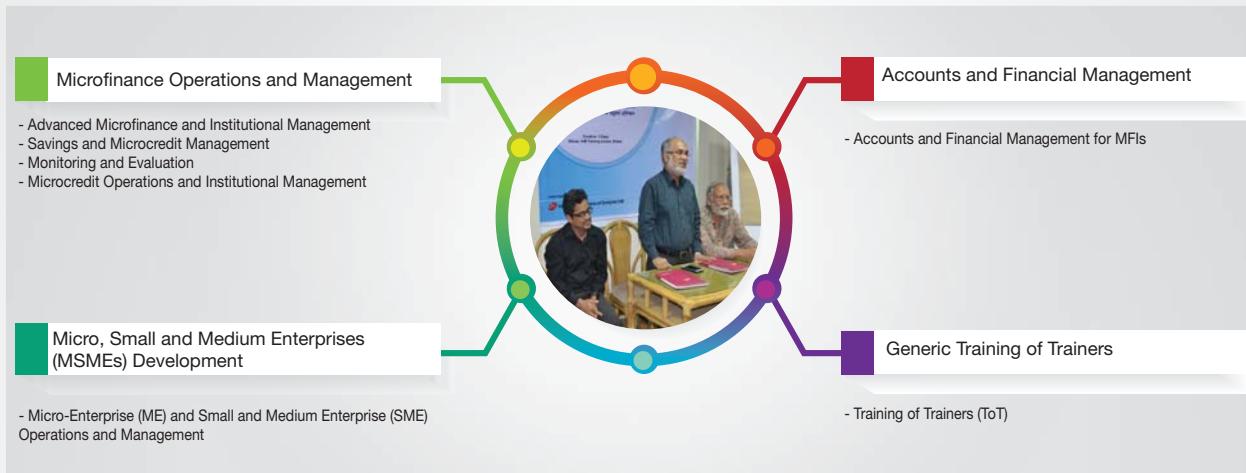
In July 2017, Ms. Sifat E Azam, Deputy Director attended the Thirteenth Congress of Qualitative Inquiry organised by the University of Illinois, Urbana Champaign, USA. In the Congress she presented a paper titled Impact of Unplanned Creative Education in the Primary Formal Education: Bangladesh Perspective.

## Training and Capacity Development Activities

Since May 2017, a number of training programmes have been organised by InM Training Division as a part of its capacity development activities for NGO-MFIs:

### Training for PKSF Partner Organisations (POs)

InM, jointly with PKSF, has organised training programmes where a total of 272 professionals of POs successfully completed the following courses:



The existing plan is to provide training to an additional 100 participants in four batches by September 2017.

### Training for MRA Licensed MFIs

During the period, InM organised six batches of training courses on 'Financial Management and Internal Control for MFIs' for 99 participants of MRA licensed MFIs. Another 75 participants will be provided similar training by October 2017.

### Customised Training for NGO-MFIs

InM plans to provide specialised training titled 'Risk Management and Monitoring in Microfinance Operations at Field Level' for officials of PADAKHEP Manabik Unnayan Kendra, a major NGO-MFI of the country. The course will blend various exercises and case studies to sharpen the microfinance management skills with new ideas and concepts especially in the areas of risk management and its monitoring techniques.

## Diploma in Microfinance Programme

The participants of the 7th batch of the Diploma in Microfinance Programme have successfully completed the first quarter and the second quarter has started from July 2017.

Meanwhile, as invited guests in July 2017, Dr. Lila Rashid, General Manager, Bangladesh Bank spoke to the Diploma course participants on historical perspectives of MRA Act in Bangladesh while Mr. Badruddoza of United International University lectured on the process of data interpretation and use of MIS reports for decision making and Mr. Sushil Ray, Executive Vice President, ASA shared his experience and practice of human resource management in ASA.



## 8th Batch Diploma Programme Starts in October 2017

The academic activities of the 8th batch of the Diploma in Microfinance Programme have started and the programme will start in October 2017. Interested persons from NGO-MFIs, banks and other institutions as well as fresh graduates with requisite qualifications are requested to contact the InM Education Division for admission and other details at the following addresses:  
Phone 88-02-8190271, 8190364 Ext-105 or email- [diploma@inm.org.bd](mailto:diploma@inm.org.bd)

## Finalising Case Study on Sogaj

InM Education Division, in collaboration with the Training Division, has finalised a case study report on Somaj-O-Jati Gathan (SOJAG), a rapidly expanding MFI of the country. The report uses materials from field visit on several innovative activities of SOJAG like cereal seed production, cattle rearing, artificial insemination, urea granules production, and biogas plants. The report will be used as a case study material for the Diploma in Microfinance Programme.

## Improvement of Course Contents of Diploma Programme

As a part of its regular annual activity, InM Education Division is currently implementing a programme for improving and updating the contents and materials of the Diploma in Microfinance Programme. Under the initiative, all courses are being reviewed by relevant experts for designing improved courses with more relevant materials for the Diploma participants.

## Knowledge Management

## Refining Digital Financial Services Regulations and Management

Increasing access to financial services through digital financial services (DFS) and mobile technologies is crucial to Bangladesh. Financial inclusion matters as a means to an end, not an end in itself alone; as financial access provides economic empowerment and raises standards of living along with broader benefits to society. Financial inclusion promotes economic growth by enabling people to diversify their portfolios and meet their cash liquidity requirements. Given the rapid expansion of mobile money and agent banking, the case for promoting DFS as the driver for financial inclusion is strong in Bangladesh. The government has also laid out an ambitious agenda to build a seamless digital economy to enhance productivity, spur financial inclusion, and reduce poverty for rapid transition to a middle income country.

DFS are growing rapidly in Bangladesh. Mobile technologies and services generated 6.2 percent of the country's GDP in 2015, a contribution that amounts to around US\$13 billion. During the same year, mobile operators and the ecosystem generated employment to more than 760,000 people in the country. The guidelines for mobile financial services (MFS), adopted by the Bangladesh Bank, have helped establish this rapidly growing market. Aside from recent innovations such as mobile money, DFS are not entirely new. Similarly, the digital platforms (or retail payment systems) needed to access these digital services are not new either, aside from the platforms used to process mobile money payments. Focusing on 'DFS ecosystem' is really about working out how to promote the use of DFS to improve financial inclusion. Financial regulators are well aware that digital technology can be used to provide financial services to remote regions in emerging markets and make a difference in people's lives and improve their standards of living. However, new providers and newly banked customers that come with adoption of digital technology for financial services means financial regulators tend to be alert not only to tremendous opportunities, but also possible risks and hazards.

Thus, in emerging markets like Bangladesh, where the regulators' roles are already stretched in terms of limited resources and capacity, the regulatory environment is now becoming more challenging and complex as a direct result of the expanded range of products and services available to the previously unbanked or under-banked consumers; and the fact that these products and services can now be provided by a wide range of entities and not simply banks or non-bank financial institutions. Bangladesh has already put in place relevant policies regarding these issues; but still there is some scope to work in different areas. While the opportunities with digital technology for financial inclusion are immense, financial regulators require guidance and support on how best to respond to these rapid changes. For creating a well-functioning and satisfactory DFS regulatory framework, greater insights are needed on the current DFS/MFS regulations and existing barriers in the regulatory framework.

Although the sustained efforts of a few financial services providers have contributed to the expansion of DFS, two providers continue to dominate the market. Further, while the government is responding to the emerging national interest to improve market competitiveness by introducing agent banking, some aspects of the MFS regulatory guidelines such as ownership structure, the role of non-bank entities, investment promotion, and unstructured supplementary service data (USSD) pricing are yet to be addressed.

There is a need to set a well-articulated vision of DFS. The presence of multiple and sometimes less clear regulatory guidelines discourages the providers to act, experiment, expand and develop DFS services. Till now, except only a few, the majority of the MFS providers (bKash and ROCKET) have witnessed slow growth and many have not even gone ahead in introducing their products despite having a license from Bangladesh Bank. For moving forward, there is a need to install a comprehensive review of MFS guidelines and agency banking guidelines. The aim should be to define the scope of MFS accounts which will dictate the design of other regulatory frameworks, remove confusions and make the scope of market expansion visible to the market players. More specifically, Bangladesh Bank may like to review several specific areas like alignment of policies; such as conflicting provisions between agency banking and MFS, possibility of prescribing unified and aligned provisions under respective regulatory frameworks such as know your customer (KYC), licensing requirements, reporting requirements etc.; introduce a robust KYC standard that would ensure better customer verification and be convenient to the customers (e.g. introduction of tiered KYC system, allowing e-KYC, harmonising KYC requirements across banks, telcos, MFS providers and other related entities); identify common protocols for providers for reference/use of national assets (such as NID/other identities, interface design and customer protection); set guidelines on managing agent networks and on standard operating procedures (SOP) for agents and so on. Similarly, MFS and agency banking regulations are needed to allow space for innovation and testing in order to enable the development of more customer friendly products such that the providers can offer different products for increasing DFS use. For the purpose, Bangladesh Bank needs to create enabling conditions such that the providers can test savings, deposit, credit and insurance products preferably within a controlled environment. A Regulatory Sandbox--an approach to test business models, products, and services within a specific set of regulatory conditions--can be useful for spurring innovations while managing regulatory risks and concerns. This will support the evolution of innovative DFS products/services and business models to reduce and gradually phase out OTC transactions without disturbing the market. The Regulatory Sandbox will help test new financial products and services, as no MFS providers currently offer savings and credit products.

Bangladesh Bank needs to set its vision for interoperability through identifying the degree of interoperability needed in Bangladesh and exploring different frameworks/toolkits on interoperability. Several issues are relevant such as, types of interoperability (full scale, account to account, account to wallet etc.) and pros and cons of each model; membership of all banks in the national switch within a time bound manner; and linking MFS with national switch to realise the full benefits of MFS for remote payments and encourage customers to shift from OTC to self-conducted transactions. Bangladesh Bank needs to put in place a risk management framework in alignment with the adopted DFS vision for the country. There will be new and varied players like shared agent network providers in practice or a specialised class of players who offer data analytics plus agent management services or a class of MFIs working as DFS providers or partnering with a bank as service channel.

Based on its enhanced capacities and looking at best practices in similar DFS environments, Bangladesh Bank needs to develop tools to monitor the efficacy of agent level operations; issue supervision guidelines outlining systemic, departmental supervision and, if needed, agent based supervision; recommend common protocols for providers such as the use of NID for KYC verification, guidelines on interface design including Bangla language requirements, customer protection norms etc and ensure that the providers have the vision, systems and training to innovate and develop DFS.

01

Financial regulators need to set and enforce rules to ensure that retail services are offered transparently, that providers treat customers fairly and do not put them at risk, and that effective mechanisms exist to address customer complaints

02

DFS providers need to improve product design and services including standards and codes of conduct

03

Interventions are implemented that raise consumers' awareness and strengthen their financial capability helping them to behave responsibly and protect themselves.

Bangladesh Bank's guidelines for DFS need not only to enable and foster innovation, but also to develop tools and techniques for increasing competition and managing risks. The framework must ensure the right balance between these two considerations. For promoting inclusive growth, DFS needs to combine the benefits derived by the unserved or underserved clients through access to quality financial services with a commitment to sustainability by the providers so that access to services can be sustained over time and offered to growing numbers of clients, especially because these clients are potentially vulnerable. The providers and other industry stakeholders must focus on the need to deliver services that are safe, offer good value for money, and are likely to generate benefits for the poor clients. In this regard, three issues are important: (i) financial regulators need to set and enforce rules to ensure that retail services are offered transparently, that providers treat customers fairly and do not put them at risk, and that effective mechanisms exist to address customer complaints; (ii) DFS providers need to improve product design and services including standards and codes of conduct; and (iii) interventions are implemented that raise consumers' awareness and strengthen their financial capability helping them to behave responsibly and protect themselves. The government, including the regulators, need to play the critical role in creating incentives for and supporting responsible practice by DFS providers. The guiding principles are to ensure improved retail-level practices and products, consumer protection regulation and supervision, and consumer financial capability.

## Publications

To download the InM Publications, please visit: <http://www.inm.org.bd/publications>



InM Working Paper Series  
(Working Paper 52 and 53)



InM Annual Report  
2016-17



Diploma in Microfinance  
3rd Graduation Ceremony  
Brochure



InM Training Division  
Brochure



InM Education Division  
Flyer

## Book Launching Ceremony

The Institute for Inclusive Finance and Development (InM) organised a book launching ceremony titled *Rural Mechanisation: A Driver in Agricultural Change and Rural Development*. The book is published by InM, and edited by M. A. Sattar Mandal, Stephen D. Biggs and Scott E. Justice. Begum Matia Chowdhury, Minister of Agriculture, Peoples Republic of Bangladesh attended the ceremony as the Chief Guest while Dr. Atiur Rahman, Former Governor of Bangladesh Bank was present as the Special Guest. Dr. Qazi Kholiquzzaman Ahmad, Chairman of InM presided over the ceremony.



### Sponsorship Opportunities

Under the InM's 'Deepening Knowledge on Inclusive Finance in Bangladesh (DKIF-B)' Programme, InM undertakes a series of activities including research and database development. Under the Programme, sponsorship opportunities are offered. Interested government agencies, banks, financial institutions, microfinance institutions, corporate bodies, and other organisations are requested to contact: Coordinator, DKIF-B, InM; email: [info@inm.org.bd](mailto:info@inm.org.bd).

Published By



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