

INSIGHTS

InM Newsletter

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Rising Inequalities

Have We
Reached a
Tipping Point



The concerns with inequality are strong policy issues in Bangladesh. The inequalities are not merely about disparities of outcomes; these are about disparities in opportunities as well in terms of age, sex, disability, race, ethnicity, origin, or economic and other status. In Bangladesh, disparities in opportunities are so evident in every sphere of life that focus only on economic inequalities provides a partial picture of the status and policy agendas on inequality.

For Bangladesh, structural inequality is also an important issue; which is a condition where one class of people is attributed an unequal status in relation to other classes. This is perpetuated and reinforced by a confluence of unequal relations in roles, functions, decisions, rights, and opportunities. Structural inequality refers specifically to inequalities that are systemically rooted in the normal operations of dominant social institutions, and can be divided into categories like healthcare, employment and educational discrimination. Combating structural inequality requires broad, policy based structural change



Institute for Inclusive Finance and Development (InM)

and is often a critical component of poverty/inequality reduction agenda. In many ways, a well-organised democratic government that can effectively combine growth with redistributive policies stands the best chance of combating structural inequality.

Is income inequality rising in Bangladesh? Nationally, the Gini coefficient of income distribution stands at 0.483 in 2016; which is 0.498 in rural areas and 0.454 in urban areas. Over the period of 1964 to 2016, national Gini has risen from 0.36 to 0.483—an increase by more than 34 percent—while rural Gini increased by nearly 38 percent and urban Gini by 21 percent over the same period. These figures show that Bangladesh has experienced increases in Gini coefficient over the last half century; but the rate has accelerated especially since the 1990s. Inequality increased rather sharply in the rural areas while urban areas experienced a somewhat moderate rise in income inequality.

There is a growing consensus that the best indicator for looking at the worst form of income inequality is the Palma ratio, which effectively focuses on extremes of inequality—the ratio of incomes at the very top to those at the bottom. The Palma ratio is the ratio of the richest 10 percent of the population's share of gross national income (GNI), divided by the poorest 40 percent of the population's share and is considered to be a more policy-relevant indicator than the Gini, especially when it comes to poverty reduction.

In Bangladesh, it is changes in these extremes that are most noticeable; while the share of income in the middle is relatively stable. The Palma ratio at the national level has consistently increased from 1.68 in 1964 to 2.93 in 2016; in urban areas, it rose from 2.00 to 2.96 while, in rural areas, it grew from 1.38 to 2.51 over the same period. The poorest 40 percent have consistently lost in terms of income share while the richest 10 percent have gained. The policy implication is that Bangladesh should focus on 'extreme' inequalities, that is, inequalities that do most harm to inclusive and sustainable economic growth and undermine social and political stability.

In the case of income, one of the targets of SDG10 is to progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average by 2030. The HIES data show that the average per capita household income (at 2010 prices) over the 1986-2016 period grew at 1.43 percent while the same for the bottom 40 percent grew by only 0.28 percent. The situation is worse in the rural areas as, while the average per capita income grew by a healthy 4.41 percent, the income of the bottom 40 percent actually declined by 0.24 percent. Per capita income of the bottom 40 percent (both nationally and in the rural areas) started showing positive growth only since 2005. Along with income, one can observe

growing geographical, gender-based and group-based inequalities in the country.

Overall, humanity remains deeply divided in Bangladesh. The income gap has deepened — and, with it, the difference in quality of life between the rich and the poor — despite the immense progress made through impressive growth performance. Economic progress has not alleviated disparities, rather has exacerbated them. The Bangladesh society is more unequal today than at any point in time after independence!

Recent research shows that how the rise of inequality, often to an extreme level, has become a worldwide phenomenon. In many countries, the 'super-rich' has significantly neutralised the countervailing power of the state. In many countries, the state power itself has been used to institute a system of surplus extraction that has been the major contributor to polarisation of the distribution of income. In either case, the containment of inequality requires a basic change in the exercise of state power. But one must also realise that it is hard for state power to give up this role which has become its *raison d'être* in many countries. However, if a fundamental change in the predatory use of state power cannot be brought about, no major change in the trajectory of inequality is likely to take place.

Designing the right policy framework for addressing inequalities is the biggest challenging area to work in Bangladesh, like in other developing countries. Inequalities of outcomes and opportunities are highly inter-dependent. Without equal opportunities, systemic patterns of discrimination and exclusion prevent the poor and disadvantaged groups from accessing economic, political and social resources, resulting in inequality traps — and the persistence of inequality across generations. Equal opportunities can level the playing field so that the circumstances of birth (such as race, gender, rural or urban location) do not adversely influence an individual's chances to get ahead in life.

The comprehensive policy framework to help policy makers better navigate the complexities and challenges of forming appropriate policies to address inequality should be based on three pillars:

1

moderating income inequality

2

closing gaps in health, nutrition and education

3

addressing social exclusion by promoting agency, developing rule-based institutions, combating discrimination and transforming inequality-reproducing cultural norms.

Since inequality of outcomes and that of opportunities are interlinked and mutually reinforcing, a comprehensive policy framework to reduce inequality needs to address both. The mix of policies and how they should be sequenced to address inequalities are context-dependent and specific to the needs and requirements of each country or specific society and locality. Nevertheless, priority should be given to deeper and more persistent gaps. For example, Bangladesh is going through rapid urbanisation and experiencing lower increases in income inequality in urban than in rural areas, but widening gaps in quality education or health need to be prioritised.

At present, the society in Bangladesh has reached a tipping point. Inequality can no longer be treated as an afterthought. We need to focus more on how the benefits of growth are to be more equally distributed; and with right policies there doesn't have to be a trade-off between growth and equality. On the contrary, opening up of greater opportunities for the poor and disadvantaged will spur stronger socioeconomic performance and improve living standards for all excluding none.

In this context, local authorities (e.g. Union Parishads), NGO-MFIs and civil society organisations can jointly set up 'Susama Samaj Committees (SSCs)' (Fair Society Committees) at the local level. These SSCs will consider evidence and make recommendations for tackling inequality and poverty at the respective local levels. These may also recommend approaches which could lead to greatest progress in addressing inequality and poverty given the local contexts, and analyse the implications for policy and practice. Location-based community-led actions on issues such as fair wages, use of local productive resources, income opportunities, education, primary health, childcare and nutrition, water supply and sanitation, and related aspects can lead to significant achievements in reducing inequalities at the local level. But inequality reducing policies such as living wages, quality education and health care services, nutritional interventions, free school meals and similar other interventions will have greatest impact if introduced at the national level.

Education

Progress of 8th Batch Diploma Programme

Thirty participants of the 8th batch Diploma in Microfinance programme have completed their one month long Internship under close monitoring and supervision of the instructors and submitted their reports based on field observations and findings. This field exposure after completion of the classes enables the participants to connect their class room learning with practical experience. It may be added that the academic activities of the 9th batch Diploma in Microfinance programme has begun in July 2018.

Training and Capacity Building

During the period, InM jointly with PKSF organised training programmes for 180 professionals of POs covering six modules on Accounts and Financial Management for MFIs; Group Dynamism in Poverty Alleviation: Savings and Credit Management; Monitoring and Evaluation; Credit Operations and Institutional Management; Loan Management of Microenterprises; and Training of Trainers (ToT).



A specialised course was organised in June 2018 for senior practitioners of Dushtha Shasthya Kendra (DSK) covering key performance indicators (KPI) for monitoring and auditing of MFIs.

Another course on "Building Workplace Attitude and Values for Enhancing Organisational Commitment" was also organised during the period for senior professionals of the Centre for Development Innovation and Practices (CDIP). The course design covers, among others, ways to cultivate employee commitment to organisation, its mission and its clients, and learn and practice the social skills needed to perform assigned jobs.



Research

Microfinance and Women Empowerment: Empirical Evidence from Rural Bangladesh

Women in Bangladesh, especially those from the poverty-stricken groups, are more vulnerable to denial of fundamental rights. They frequently suffer from various forms of social exclusion and remain more isolated from opportunities towards advancement than men. Since microfinance primarily targets the poorer female clients, it may be anticipated that provision of financial resources and effective utilisation of these

resources along with group-based activities can strengthen women's economic roles, empower the women and reduce inequalities. In assessing the effectiveness of one special microcredit programme, PRIME, in a poverty-stricken area of rural Bangladesh, InM gathered 54 indicators to address ten empowerment indicators. In order to generate an aggregate index for women empowerment, the study used Item Response Theory (IRT) model and Rasch test for dichotomous responses.

The results show that women from PRIME participating households are in a better position compared with women from the non-participant group. The programme design itself influences participants to be more mobile, to demonstrate improved position in terms of financial

security, to secure authority to spend their own income, control their own savings, and manage emergency money. They also participate more actively in the decision-making process of their households and ensure a positive externality in terms of lower rate of domestic violence. Further, microcredit along with skill development training, technical assistance, primary healthcare services and awareness building campaign result in a labour market that works better, removes gender inequalities and increases financial inclusion.

The findings of the study have been published by Nahid Akhter, Senior Research Associate, InM in an article entitled 'Women Empowerment and Microfinance: A Case Study from North-Western Bangladesh' in SDGs and Gender Equality of the Asian Development Perspective, (Volume 9, Number 1, June 2018).

Knowledge Management

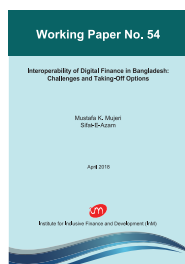


- ▶ 'Jobless Growth' in Bangladesh : A myth or reality (The Daily Star)
- ▶ Rising 'informality' in formal employment (The Financial Express)
- ▶ Rising Inequalities: Have We Reached a Tipping Point? (The Financial Express)
- ▶ Ideologies Required for Reducing Inequality: Mujeri (দৈনিক প্রথম আলো)
- ▶ Recent current account deficits: A matter of concern? (The Financial Express)
- ▶ FY18-19 budget: What's in it for the poorest people? (The Financial Express)

Newspaper Articles

▶ হতদরিদ্র জনগোষ্ঠীর জন্য কী আছে বাজেটে (দৈনিক বণিক বার্তা)

Working Paper Series

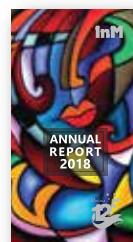
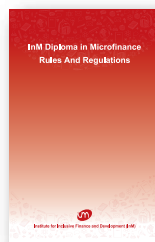


Working Paper No. 54
Interoperability of Digital Finance in Bangladesh:
Challenges and Taking-Off Options
Mustafa K. Mujeri & Sifat-E-Azam

Working Paper No. 55
Role of Digital Financial Services in Promoting Inclusive
Growth in Bangladesh: Challenges and Opportunities
Mustafa K. Mujeri & Sifat-E-Azam

Working Paper No. 56
Branch Expansion and Institutional Sustainability
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Farhana Nargis, Mustafa K Mujeri & Farah Muneer

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