

INSIGHTS

InM Newsletter

■ Volume: 09 ■ Issue: 03 ■ December 2024



Reducing Inequalities in Bangladesh: Challenges and Pathways

Since independence, Bangladesh's rapid progress in socioeconomic development has no doubt been impressive; yet, the country has a long way to go to promote equitable, inclusive and sustainable development. For the coming decades, the key policy agenda for Bangladesh would be to ensure transition towards more inclusive development that systematically addresses: (i) problems of inequalities; (ii) gaps in key social indicators including education, health and nutrition across population groups and regions; and (iii) discriminatory norms and institutions including lack of empowerment of women and girls as well as disadvantaged/marginalised communities.

Such a transition requires a new development paradigm such that low-income and marginalised households can have higher than average income growth supported by effective redistributive policies and better access to opportunities. The key is prioritisation and fast-tracking of actions favouring the furthest behind. The need is to craft inequality-reducing ideologies and actions to support the premise that reducing inequalities would benefit all Bangladeshis.

Inequality matters for Bangladesh as equality of both outcomes and opportunities are deeply embedded in the country's value system. The impact of growth on poverty is mediated through inequality. Bangladesh could have lifted more people out of poverty if the past growth could have been achieved without rapidly rising inequalities. Moreover, inequality undermines the country's growth process itself through a number of channels and hence inequality is also a determinant of growth in Bangladesh.

The development literature provides convincing evidence on growth-inequality nexus. In this context, a distinction is often made between short- and long-term growth which corresponds to differences in issues between 'igniting' growth and 'sustaining' growth over the long term. Development experience is full of examples of countries which could ignite growth in the short term, but are not able to sustain it. Bangladesh is a recent addition to this list. Rising inequality is a key reason that explains this failure to sustain high long-term growth.

Bangladesh's divided humanity: Rising inequalities are major issues in Bangladesh. The national Gini coefficient of income distribution stands at 0.499 in 2022. Income inequality since 1964 shows that national Gini has increased by nearly 40 percent during the period. The worst form of income inequality is measured by the Palma ratio which focuses on extremes of inequality—ratio of richest 10 percent of the population's share of gross national income (GNI) divided by the poorest 40 percent of population's share -- which is a more policy-relevant indicator. In Bangladesh and across other countries, it is changes in these extremes that are

most noticeable; while the share of middle 50 percent is relatively stable. The Palma ratio has consistently risen from 1.68 in 1964 to 2.93 in 2016 in Bangladesh. Wealth inequalities are still worse, indicating concentration of most wealth in the hands of only a few. The policy implication is clear: Bangladesh urgently needs to focus on its 'extreme' inequalities.

Along with income and wealth, there exist growing geographical, gender- and group-based inequalities in many other dimensions in society. Educational facilities are asymmetric between cities and rural areas which do not take into account the needs of rural and remote areas. The differential quality of education is a major challenge at all tiers of the education system.

Inequality is now fatal; and if left unchecked, it will undermine the very foundation of the country's development and its social fabric. No doubt Bangladesh is now richer than ever before; but the richest 5 percent of the households gets nearly 30 percent of the total income while the bottom 5 percent gets only 0.22 percent. Despite overall declines in maternal mortality, women in rural areas are still up to three times more likely to die while giving birth than women living in urban centres. Social protection has been expanded, yet persons with disabilities are up to five times more likely than average to incur catastrophic health expenditures. Women are participating more in the work force, but they continue to be disproportionately represented in vulnerable employment. Indeed humanity remains deeply divided in Bangladesh. The income gap has widened — and, with it, the differences in quality of life between the rich and the poor. Overall, the Bangladesh society is more unequal today than at any point in time after independence!

Further, there exist complex interactions among different forms of social and economic inequalities; and the multidimensional drivers of inequalities call for a holistic approach to mitigate and overcome the challenges.

Challenges and way forward:

Designing right policy framework for addressing inequalities is probably the most challenging area in Bangladesh. Inequalities of outcomes and opportunities are highly inter-dependent. Without equal opportunities, systemic patterns of discrimination and exclusion prevent the poor and disadvantaged from accessing economic, political and social resources, resulting in inequality traps — and the persistence of inequality across generations.

Since inequalities of outcomes and opportunities are mutually reinforcing, a comprehensive policy framework needs to address both. The mix of policies and how they are sequenced are context-dependent and specific to the needs and requirements of communities. Priority is needed for deeper and more persistent gaps.

A comprehensive policy framework can help policy makers to better navigate the complexities and challenges of forming right policies having three related pillars: (i) moderating income inequality; (ii) closing gaps in health, nutrition and education; and (iii) addressing social exclusion by promoting agency, combating discrimination and transforming inequality-reproducing socio-cultural norms.

'Leaving no one behind' agenda is critical to reducing inequalities. It ensures positive impacts on the poorest and most marginalised from development. This

requires localisation of inequality reduction efforts and to 'put the last first' to ensure that areas of relative deprivation are targeted at the local level.

The critical role of civil society is to ensure that the government is held accountable based on three elements: responsibility, answerability and enforceability. These three elements of accountability are not mutually exclusive, but interlinked.

Inequality reduction agenda:

Much of the economic inequality in Bangladesh is associated with 'rent-seeking' that undermines economic efficiency. The worse form of inequality that is widespread is inequality of opportunities, which are both the cause and consequence of inequality of outcomes.

Indeed, inequalities in wealth exceed those in income. Similarly, Palma ratios of health status and exposures to environmental hazards would show even greater inequalities. Obviously, the worst forms of inequality in Bangladesh relates to inequality of opportunities.

Since different dimensions of inequality are related, focusing on one dimension at a time may underestimate the true magnitude of societal inequalities and would provide an inadequate basis for policy.

The policy implication is that Bangladesh needs to focus on 'extreme' inequalities, that is, inequalities that do most harm to inclusive and sustainable development and undermine social and political stability. One thing is clear: for achieving inclusive and sustainable development, Bangladesh cannot ignore extreme inequalities. The spatial dimension of inequality also has important implications, since regional disparities in economic activity, incomes and social indicators foster overall income inequality.

To be effective in reducing inequalities, decentralisation initiatives in Bangladesh need support from suitable additional redistributive instruments depending on whether to redistribute between individuals or regions. Regional inequalities contribute to interpersonal inequalities so that it might be more efficient to redistribute between individuals using tax-transfer schemes instead of redistributing between regions.

Despite the pervasiveness of inequalities, it is avoidable. The rising inequality has emerged mostly due to big inequalities in accessing opportunities and sharing outcomes. This calls for insights into the functional dynamics of deriving economic and social opportunities and how the political process shapes and perpetuates the country's structural features of unequal privilege and neglect of poor and disadvantaged communities.

For Bangladesh, the risk of increasing inequality associated with active participation in the global economy is greater, especially because of inherent institutional weaknesses associated with being a relatively low income country. It is true that globalisation has tremendous potential benefits for a country like Bangladesh. The challenge is to realise the potential benefits without undertaking huge offsetting costs.

From the policy perspective, not all inequalities are 'bad' for Bangladesh. Some inequalities represent the outcomes of differences across individuals in ambition, motivation and willingness to work. The 'constructive' inequalities provide incentives for mobility and reward higher productivity. Increases in constructive inequalities may simply reflect faster growth in income for the rich than the poor – but with all sharing in some growth.

In Bangladesh, changes in the structure of output and income are one of the major sources of changes in inequality. The Household Income and Expenditure Surveys of BBS identify several sources of income inequality e.g. income from nonfarm enterprises, land and non-land assets, and remittances from abroad. Obviously, curbing growth in these components is self-defeating. One way to address the issue is to tax components of these incomes in a way that do not reduce incentives. Other option is public transfer to the poor. Another large component of income consists of what is often referred to as 'black money'; which, if captured, would reveal extraordinarily unequal income distribution.

In reality, a decent system of taxation together with provision of social protection could support a process of inequality-averse growth. But the nature of state power in Bangladesh seeks for avenues of rent appropriation. These are used in distributing contracts for public procurement and favours to trade and industry to overcome 'invisible' controls. For policy, one obvious implication is to create necessary fiscal space to finance safety nets and social protection programmes.

In view of the complexities, the best policy against inequality in the medium term is universal access to quality education. In this global information age, education is the 'people's asset'; and the more the quality education for all, lower the inequality in the long run. Quality education for the poor is not a political and technical matter only in the presence of high income inequality in the country, which constrains both effective demand for education of the poor households and generates resistance from richer households to allocate needed public resources for effective and quality basic schooling for the poor. Efforts are also

needed to remove anti-equality bias in all public policies by adopting 'equal-opportunity fine-tuning' of all relevant policies. Indeed, there are many pressing concerns for the country, but we must not lose sight of the challenges and obstacles created by inequalities and discrimination. 'When inequality creates discriminatory outcomes, it becomes a human rights issue'.

Concluding remarks:

Within the country's ongoing structural transformation framework, the patterns, dynamics and the challenges of inequalities are complex with multiple interfaces. These are not mutually exclusive neither these can be treated as causes or symptoms. There are many other issues of social, cultural and political processes which are also important ingredients of the processes and outcomes, reinforcing the historical aspects and inter-generational dimensions of inequalities.

The country's unequal development process has also been fueled by 'democratic deficit' under powerful neoliberal regimes. The proponents hold that inequality in development is the outcome of inadequate functioning of the market mechanism and prescribe that creating 'market-friendly' social structure and economic institutions which are self-regulating and can respond to economic regulations and incentives will generate a process of equitable development in Bangladesh. However, the reality points to the tendency towards inequality in every sphere of life, and that the structural process itself compels the state to remain strongly biased towards the rich and powerful elites. No doubt, the 'elite capture' of the state has contributed much towards widening democratic deficits and rising inequalities in Bangladesh.

In short, equality and justice along with equal opportunities for all, as ingrained in the

concept of inclusive development, needs to be the cornerstone of equitable, inclusive and sustainable development policies in Bangladesh. While not undermining the critical importance of other dimensions (including health, education, social inclusion and protection for the disadvantaged communities) in the process of reducing inequalities, the country's labour market and its dynamics is probably the critical entry point for strengthening the process of 'inequality-reducing' inclusive development in Bangladesh.

Advisory Committee Meeting of 'Comprehensive Rural Finance' Study

The 5th meeting of the Advisory Committee of the “Comprehensive Rural Finance” study supported by the Bangladesh Bank was held on 25 November 2024 at InM Conference Room, House: 50 (5th Floor), Road: 8, Block: D, Niketon, Gulshan 1, Dhaka 1212. Dr. Qazi Kholiuzzaman Ahmad, Chairman of the Advisory Committee chaired the meeting which was attended by Dr. Nazma Begum, former Professor, Department of Economics, University of Dhaka; Dr. Mustafa K. Mujeri, Executive Director, Institute for Inclusive Finance and Development (InM), Mr. Helal Ahmed Chowdhury, Chairman Board of Directors, BASIC Bank Limited, Dr. Toufic Ahmad Choudhury, Director General, Bangladesh Academy for Securities Markets and Dr. Ahmed Mushtaque Raza Chowdhury Former Vice Chairperson, BRAC.

The meeting reviewed the progress of the study and outlined the work plan for the upcoming six months. During the discussion, the main report's chapter structure was briefly examined and the advisory committee members suggested adding more sub-sections to improve the report's quality and relevance. Additionally, the main findings from four background reports were presented: (i) Survey Report: Bangladesh-Report of the Rural Finance Survey 2023; (ii) Access to Finance for Farming and Non-farming Households in Rural Bangladesh; (iii) Penetration of Agent Banking and Mobile Financial Services in Rural Areas of Bangladesh; and (iv) Regional Variations in Access to Finance Among Rural Households in Bangladesh. Based on these findings, committee members explored various options and proposed actions to ensure the report's quality and relevance. They also commended InM's efforts in working towards the study's overall objectives.



Advisory Committee Meeting InM Confarance Room

Bangladesh Poverty Watch Report 2024: A Deep Dive into Climate Change and Poverty

The Bangladesh Poverty Watch Report 2024 marks the third edition in a series jointly published by the Institute for Inclusive Finance and Development (InM) and the Center for Inclusive Development Dialogue (CIDD). This report offers a comprehensive analysis of how climate change exacerbates poverty, particularly among the most vulnerable populations in Bangladesh.

A major focus of the 2024 report is the interaction between climate change and poverty, highlighting how changes in temperature, weather patterns, and natural disasters such as cyclones, droughts, flash floods, riverbank erosion, and salinity intrusion disproportionately affect the impoverished. Bangladesh, being highly susceptible to climate-induced disasters, is witnessing an increasing number of vulnerable communities struggling with the compounded effects of poverty and environmental degradation.

This timely report underscores the urgent need for coordinated action to mitigate the impacts of climate change and address poverty in all its dimensions. As Bangladesh grapples with the compounded challenges of environmental degradation and socio-economic inequality, the report provides essential insights into creating a more equitable and sustainable future for all.

Field Level Surveys/Investigations

During the period under review, InM has been conducting, along with other activities, different field level investigations including quantitative data collection and case studies by using structured questionnaire and checklist. Prior to the field survey, the InM Research Team provided one day of rigorous training to the field staff explaining the objectives of the study and the survey questionnaire/checklist. A total of 280 household data from 7 (Chuadanga, Naogaon, Vhola, Sunamganj, Kuri gram, Satkhira, Bagerhat) districts were collected and quantitative data were collected during the period of December, 2024. The household head was selected for the interview. During the field survey, InM Research Team members visited the selected areas and monitored the field work for ensuring quality and robustness.

Glimpses from the field survey



A field staff member is collecting data from respondents in Durgavhati Village, located within the Burigoalini Union of Shyamnagar, Satkhira.



A family affected by the cyclone in Shikdar Char, a village in the Charfasson Upazila of Bhola District.





Waterlogging has affected Kanai Nagar, a village in the Mongla Upazila of Bagerhat District.

Kickoff and Orientation Meeting of WCAD Programme

The Institute for Inclusive Finance and Development (InM), in collaboration with Water.org, organised the 'Kickoff and Orientation Meeting' for the third year of the WaterCredit Adoption (WCAD) Programme on 6 October 2024, at BIDA Conference Room in Dhaka. The meeting marked the beginning of the formal journey of the third year of the WCAD programme. After successful piloting, current phase of the programme aims to ensure sustainable water and sanitation solutions for the underserved at the bottom of the pyramid especially in poverty-pockets and hard-to-reach locations. In addition, the programme incorporates a strong component on mitigation of climate change implications on WASH and greater involvement of women in WCAD activities for ensuring women empowerment and programme sustainability.

The meeting was attended by distinguished experts including Dr. Md. Jasim Uddin, Additional Managing Director of PKSF as the Chief Guest and Mr. Sajid Amit, Executive Director (South Asia) and Country Director (Bangladesh) of Water.org as the Special Guest. The event was chaired by Dr. Mustafa K. Mujeri, Executive Director of InM. The event was attended by key stakeholders, including representatives from InM, Water.org and InM's WCAD partner organisations (POs) -- BASA Foundation, DISA, IDF, PMUK, SDC, Shakti Foundation, SDS, and GUK.

Under this partnership programme, InM, water.org and InM's eight POs are working together to empower low income households in Bangladesh by enabling them to access financial products and related technical and support services to meet their water and sanitation needs. Through the process, this innovative model also integrates water and sanitation loans into the portfolios of microfinance institutions (MFIs) and focuses on location specific climate resilient WSS solutions for the underserved to achieve SDG6 and related national targets. It may be mentioned that, after the pilot phase (July 2021 – November 2022) and the second phase (February 2023 – June 2024), the third year of the programme began in September 2024 and will continue till August 2025. The meeting provided the opportunity to conduct a joint review of

the past achievements, share the lessons learnt, identify future challenges, and set the directions for future activities.

The participants from the POs included: Ms. Rabeya Begum, Executive Director, SDS; Mr. A. K. M. Shirajul Islam, Executive Director, BASA Foundation; Mr. Md. Nizam Uddin, Deputy Executive Director, IDF; Mr. Khondaker Hamidul Islam, Director Operations, SDC; Mr. Md. Jahidul Islam, Director (MF), SDC; Mr. Faisalur Rahman, Senior General Manager, Shakti Foundation; Ms. Sabrina Ahmed, Assistant General Manager, BASA Foundation; Mr. Md. Ziauddin Sarder, Assistant Director, GUK; Mr. Md. Golam Rabbani, MIS Officer, GUK; Mr. Khondaker Rakibuzzaman, Manager (RM & PI), DISA; Mr. Md. Manikuzzaman Rifat, Sub Assistant Engineer, DISA; Md. Abul kalam Gazi, Coordinator (MF), SDS; and Ms. Mousumi Chakma, Programme Organiser, IDF.

From the Water.org, Mr. Abu Aslam, Portfolio Lead (South Asia) and Mr. Shazedul Islam, Senior Partnership Manager, were present. Participants from InM included Dr. Farhana Nargis, Research Fellow; Ms. Nahid Akter, Senior Research Associate; and Mr. Md. Sajjad Kabir, WCAD Programme Manager.



Orientation Meeting WaterCredit Adoption (WCAD) Programme on 6 October 2024, at BIDA Conference Room in Dhaka.



Institute for Inclusive Finance and Development (InM)

House # 50 (5th Floor) Road #8, Block-D, Niketon
Gulshan-1, Dhaka-1212, Bangladesh.

Mobile: 01729072881

Email: inm.org.bd@gmail.com / info@inm.org.bd

Web: www.inm.org.bd